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**The Political Organisation of Business
and Welfare State Restructuring:
How Associational Factors Shape Employers' Cooperation for Social Policy Development**

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Abstract

Given that business interests have assumed ever-growing importance in welfare state restructuring, and that welfare programmes impose significant costs on firms, when and how can employers decide to actively support the development of contemporary social policy? This thesis shows that specific types of business interest organisation can favour the cooperation of employers for the establishment of new social welfare legislation by mediating between their heterogeneous economic interests and the political target structure, and by governing their collective political mobilisation. Drawing on theories of collective action and neo-corporatist models, the thesis elaborates an original typological framework and assesses it through an historical cross-national study of the role of organised business in the Austrian and Italian severance pay reforms (1990s-2000s). Detail process-tracing and systematic cross-case comparison are used to reconstruct and analyse what motivated and enabled the Austrian business community, but not the Italian one, to decisively promote the use of severance payments for the expansion of supplementary pension funds. Empirically, the thesis finds that differences in the institutional set-up of the national organisation of business interests have shaped divergent governance roles of business in the two countries by making for different organisational capacities of interest coordination and unification on the one hand, and of bargained interest accommodation, on the other. In particular, highly inclusive and cohesive organisational forms of interest representation, like the Austrian ones, have allowed employers' representatives to contain intra-class interest conflicts and deliver unitary, politically manageable and moderate social policy demands. Moreover, rather stable participation in state regulation (in non-wage policy areas) and high sanction leverage vis-à-vis members have enabled organisational leaders to determine collective social policy goals and strategies quite independently from the short-term interests of employers, and to render organisational decisions binding also for members opposing resistance. In closing, the thesis provides evidence that, even in presence of appropriate institutional arrangements, a remarkable responsibility for building business support for social welfare initiatives rests on the government. Since the latter can bias the contingent conditions of political influence, it can dampen organisations' cooperative efforts whenever it opts for clientelistic dynamics of policy formation instead of backing the construction of cross-class reform coalitions.

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List of Main Abbreviations

ABI	Associazione Bancaria Italiana (Italian Banks Association)
AK	Bundesarbeiterkammer (Austrian Federal Chamber of Labour)
ANIA	Associazione Nazionale fra le Imprese Assicuratrici (National Association of Insurance Companies)
CGIL	Confederazione Generale Italiana del Lavoro (Italian General Confederation of Labour)
CISL	Confederazione Italiana Sindacati dei Lavoratori (Italian Confederation of Workers' Unions)
CNA	Confederazione Nazionale dell'Artigianato e della Piccola e Media Impresa (National Confederation for the Craft Sector and Small and Medium Enterprises)
Confapi	Confederazione Italiana della Piccola e Media Industria (Confederation of Small and Medium Industrial Enterprises)
Confartigianato	Confederazione Generale Italiana dell'Artigianato (General Italian Confederation of Crafts)
Confcommercio	Confederazione Generale del Commercio, del Turismo, dei Servizi e delle Piccole e Medie Imprese (General Confederation of Commerce, Tourism, Services and Small and Medium Enterprises)
Confindustria	Confederazione Generale dell'Industria Italiana (General Confederation of the Italian Industry)
COVIP	Commissione di Vigilanza sui Fondi Pensione (Commission for Pension Funds Supervision)
EMU	European Monetary Union
FPÖ	Freiheitliche Partei Österreichs (Freedom Party of Austria)
HSV	Hauptverband der Sozialversicherungsträger (Association of Social Security Providers)
INPS	Istituto Nazionale della Previdenza Sociale (National Institute for Social Insurance)
IV	Industrielle Vereinigung (Federation of Austrian Industry)
MVK	Mitarbeitervorsorgekassen (Austrian Supplementary Pension Funds)
ÖGB	Österreichischer Gewerkschaftsbund (Austrian Unions' Federation)
ÖVP	Österreichische Volkspartei (Austrian People's Party)
SMEs	Small and Medium Enterprises
SPÖ	Sozialdemokratische Partei Österreichs (Social Democratic Party of Austria)
TFR	Trattamento di Fine Rapporto (Italian Severance Pay)
UIL	Unione Italiana del Lavoro (Italian Union of Labour)
WKÖ	Wirtschaftskammer Österreich (Austrian Federal Economic Chamber)

I. Introduction

This PhD work intends to investigate the role of a rather neglected political actor, business, in relation to the social policy reforms introduced in the last decades to restructure and reinforce the institutional architecture of contemporary welfare states.

The wide range of business interests and activities makes the social group of capital owners always somewhat politically relevant for social policy. Every single employer, by simply pursuing purely economic objectives of investment and profit, produces some effect on the public welfare sphere. Suffice to think about the weight of employers' decisions on employment levels and structure, or about the benefits of corporate social responsibility programmes. Business actors can also affect social policy collectively, for example when they organise their activities in the form of social economy enterprises such as cooperatives or foundations. However, here we are not interested in the contributions to social policy of business as an economic actor striving after material interests in the marketplace. Rather, we focus on the collective action of business in the political arena, aimed to determine a preferred outcome of central social-policy making. It is in relation to this kind of action that business becomes a political actor in the strictest sense¹.

Understood in its political connotation, the role of business in the realm of social policy deserves our attention for several reasons. Since the 1980s, indeed, business interests have continuously grown in importance for both the economic and the political development of advanced welfare capitalisms, in the wake of global trends like market deregulation and internationalisation, or the disorganisation of the labour movement. Despite the market remains the focal place in which business pursues its interests, in recent times employers have increasingly participated to the policy processes of welfare restructuring. This has happened especially in Europe, where social policy decisions are part of a corporatist complex one way or another (Manow 2001). Undoubtedly, global trends have combined

¹ Following Sartori (1987) and Lanzalaco (1990), business, as any other social group, behaves as a political actor when its action aims to influence the decisions of public authorities, i.e. decisions that are collectivized (taken by few people for many), sovereign (supreme in rank or authority), valid *erga omnes* and binding.

with enduring cross-country differences in the direction of welfare state development, mainly due to differing national institutional set-ups. Yet, what we know about the role of business in shaping and re-shaping such development is still very little.

The academic studies available on the topic are rare and often contradictory. For a long time, scholars have worked on the assumption that business was relentlessly hostile to the expansion of welfare programmes, because they substantially interfere with employers' sovereign decisions of investment, production and profit. Under this perspective, business actors are expected to have an invariant (structural) interest in opposing any market-correcting policy aimed at distributive equity, unless they are forced to accept it by a strong labour movement or other contingent political constraints (Winkler 1976; Stephens 1979; Korpi 1983; Esping-Andersen 1985, 1990; Palme 1990; Kangas 1991; Hacker and Pierson 2002).

Lately, a few works in the field of comparative political economy have recognised that business has actively supported the establishment of new social programmes some of the time. These instances of business cooperation for social policy development have been explained by some authors with the positive material benefits of some aspects of social protection for specific categories of employees, which eventually pushed the latter to form cross-class coalitions with labour segments (Swenson 1991, 2002; Mares 1999, 2001, 2003). The underlying idea that business social policy preferences depend on interests easily inferable from patterns of economic structure sounds a bit deterministic, though, because it leaves underexplored employers' strategic adjustments to the political context (Paster 2009). More interesting for us are some sparse contributions on business and the welfare state that have put employers' associations in the foreground of their analysis. Accordingly, what favours business cooperation for social policy programmes is the strategic adaptation of firms to coordinated forms of market economy guided by associative structures (Soskice 1989; Crouch and Streeck 1997; Hall and Soskice 2001a; Estévez-Abe *et al.* 2001; Hancké *et al.* 2007). Alternatively, it is the capacity of employers' associations to mobilise their members' support for the achievement of public policy goals (Swank and Martin 2001; Martin and Swank 2004). Although these occasional studies have brought fresh and fascinating insights, it remains largely unclear what would motivate and enable employers' associations to enhance business cooperation for social policy development. In a time when entrepreneurs can threaten to relocate their

business in other countries and the unions' front has considerably weakened, understanding whether and how the organisation of business interests can bring cognitive benefits to its members and build their active support for a social model of market economy looks like an exciting research agenda to us.

Since employers' social policy preferences and influence seem more nuanced than existing theories admit, in the present work we address the following research questions:

- What role(s) does organised business play in contemporary social policy development?
- Does the political organisation of business matter for such role(s)?
- Provided that the national organisation of business interests is relevant for welfare state politics and research, what institutional conditions make possible (or more likely) employers' cooperation for the establishment of new social welfare institutions?
- Ultimately, what mechanisms are at work in employers' preference formation and political mobilisation for new social policy paradigms?

In the next pages we elaborate a typological framework that may help embedding the analysis of business associative action for social policy into the politico-institutional context in which employers organise themselves and develop their collective goals and strategies. The framework works on the assumption that the collective political behaviour of business actors does not respond to unequivocal economic interests, but it is guided by socially and organisationally constructed interests, resulting from the intermediation activities of employers' associations between the economic domain of the membership and the domain of politics. Following a politico-organisational approach, we assume indeed that it is the organisation of business interests that shapes employers' social policy goals and strategies, on the basis of its organisational structures and its relations with political interlocutors (Schmitter 1977; Streeck and Schmitter 1985; Elster 1989; Lanzalaco 1990; Traxler 1993). Building on insights from old but still valid theories of collective action (Olson 1965, 1982; Offe and Wiesenthal 1980; Streeck 1991; Traxler 1993, 1995) and neo-corporatist models (Schmitter 1974; Lehmbruch and Schmitter 1982; Marin 1983; Streeck and Schmitter 1985; Van Waarden 1995; Schmitter and Streeck 1999; Traxler 2001), our framework suggests that the organisational processes of interest aggregation and articulation can lead to different business roles for social policy development in different

institutional contexts, as a result of diverse combinations between the conflicting organisational logics of membership and of political influence (Schmitter and Streeck 1999).

The central thesis of this work is that when business is organised in highly inclusive and cohesive structures, and when it is integrated in exchange relations with institutional interlocutors by means of a stable access to state regulation (in non-wage policy areas) and a considerable sanction leverage vis-à-vis non-conforming employers, it is more likely to assume roles of active support for social policy development.

In particular, through our framework we seek to elucidate the organisational mechanisms of social policy goal and strategy formation associated with the afore-mentioned institutional conditions. On the one hand, high representational inclusiveness and organisational cohesion should enhance the governance capacities of the organisation of business to unify the interests of employers operating in different economic segments and coordinate them with neighbouring or broader interests. On the other hand, a credible sanction leverage vis-à-vis members and stable participation of employers' representatives in state (non-wage) regulation should equip the organisation of business interests with extra-membership power resources, which in turn should enable it to determine collective goals and political actions rather independently from the immediate short-term interests of employers as well as to render its decisions binding also for members opposing resistance.

Due to the exploratory nature of our research, we evaluate and refine our theoretical framework through feedbacks from heuristic case-studies, whose explanation will be couched in it. More specifically, we compare the role of business in the severance pay reforms occurred in Austria and Italy between the 1990s and the 2000s in connection with the development of supplementary pension schemes.

This choice is particularly useful for our theoretical purposes. First of all, the case of the severance pay well epitomises the key socio-economic conflicts around modern reforms of post-industrial labour market and social welfare institutions, being at the crossroads among the interests of employers for cheaper flexibility, unions' concerns for workers' security and governmental needs of public budget consolidation. Not least, it allows highlighting intra-class conflicts within the world of business.

Moreover, while Austria and Italy share several context similarities with respect to the socio-economic structure in which employers operate, their national organisations of business interests vary very much in terms of the set of institutional conditions included in our framework. The many similarities bring the advantage of increasing the comparability of cases (Lijphart 1971) and narrowing down the number of factors accounting for the differences in employers' collective positions and actions, according to the strategy of most-similar systems design (Przeworski and Teune 1970; Lijphart 1975). At the same time, the high variation in the institutional configuration of national employer organisations helps ascertaining whether the hypothesised mechanisms of business collective action have actually operated in the cases studied.

In the next chapter, we start our work with a review of the ways in which the academic literature has depicted the role of business in the making of social policy, trying to highlight different approaches and their critiques. In chapter 3 we develop our theoretical framework with the relevant hypotheses for research. To this end, we first build a typology of modes of employers' collective action in the social policy arena, on the basis of existing scientific studies. Later, we discuss the sources and processes of preference formation and we problematize the capacity of business to get involved into matters of state socio-economic governance and hence influence public choices, with the guidance of relevant theoretical contributions. Chapter 4 deals with the methodology of the study. In this chapter we describe in detail our theory-building research objectives, as well as how we intend to carry out our historical reconstruction of cases and analyse them systematically. Chapter 5 introduces the empirical part of our research. It provides an overview of the Austrian and Italian politico-economic organisation of employers that includes: a sketch of salient traits of the respective economic structures; a description of both the national key actors of the industrial relations and their integration in systems of policy concertation; and a characterisation of the main cross-sectoral peak employers' associations in the two countries. Chapter 6 and 7 present the Austrian and the Italian case studies respectively. In both chapters, the last paragraph is dedicated to our within-case analysis and its main findings. The cross-case comparison and the final remarks, instead, are left to chapter 8.

II. Business and the Welfare State

1. Welfare state research and employers' role in social policy development

In the literature on business and the welfare state there are different, at times contradictory, propositions on the type of role played by the employers' community in the formulation and later establishment of new social policy paradigms. Overall, within this variegated literature, it is possible to identify two main streams².

The first depicts all employers as *relentlessly hostile* to welfare policy innovations. In principle, any business actor is expected to oppose social programmes, as they substantially interfere with employers' sovereign decisions of investment, production and profit. Under this perspective, employers of any given business community are considered to be natural *antagonists* of social programmes that may increase the tax wedge (or, more generally, fiscal pressure), escalate labour costs, weaken the bargaining power of employers in employment relationships, obstacle adjustments in times of economic shocks, and so on. Among the supporters of the relentlessly hostile thesis, there are some who recognise the possibility that employers turn into *passive consenters* in certain contexts. In particular, since the institutional extension of workers' social rights alters the balance of power between capital and labour, several authors believe that employers may be forced by strong labour movements to accommodate their interests and accept new social policy initiatives, although with reluctance and without an active mobilisation of resources.

The second stream of the literature admits that the business community is more *half-hearted and internally divided* with respect to social policy than what is usually acknowledged by common wisdom. By relying on a model of business behaviour that takes into account adjustments of interests and preferences to institutional change within the welfare state, this second group attributes to employers an occasional role of *active supporters* of social programmes. As we will see later, the idea that business can cooperate with the government for the enactment of social provisions is based on the consideration that welfare and industrial relations institutions somehow shape business interest

² We will return on this classificatory exercise for theoretical purposes in the next chapter.

perceptions, alter the costs and benefits of certain courses of action and limit the range of viable economic and political strategies of actors.

To anticipate some contents of the summary at the end of this chapter, we clarify that the reasons behind these very different perspectives on employers' engagement with the welfare state are at least two. On the one hand, the second group of hypotheses benefitted from the progresses and shortcomings of the first, in the sense that it came later and so it could build on an already established bulk of theories. On the other hand, the two streams of the literature deal with distinct stages of welfare state development. The first focuses on welfare state origin, that is, a phase dominated by strong inter-class conflicts over the establishment of institutions of market regulation and income (re-)distribution. Instead, the second looks at more advanced stages of welfare state development, when the relevant institutions of macro-economic regulation and social protection have already become part of the institutional matrix in which actors normally operate. Then, some of the differences one can find in these two set of theoretical propositions are due to the different historical contextualisation of the relationship between the world of business and the welfare state.

In the next sections we examine some insightful academic works, grouping them according to their more or less explicit contribution to one of the two aforementioned streams of the literature, and presenting the criticism moved to them by later studies.

1.1 The thesis of employers' relentless hostility

Most theorisations of the 1970s and 1980s on business influence over social (and more generally public) policy share “the (often implicit) assumption that employers everywhere and always simply opposed any extension of the welfare state and that employers today would demolish it entirely if they only could” (Pierson 2000:795). This assumption partially explains why the literature of the time has placed its research focus mainly on labour and its interest organisations. In particular, in the mid-1970s, when welfare states were leaving their Golden Age to enter a period of greater inflation and unemployment, labour unions were seen as the key actors to whom the state could ask for cooperation to face new socio-economic problems emerging from the transformation of western capitalism and its social relapses. Nevertheless, we can find several (although not

systematic) works putting forward the argument that business interests play the role of antagonists (or passive consenters at the most) with respect to welfare state initiatives.

A first set of sparse contributions comes from the theoretical debates on collective action and neo-corporatism of those years. Admittedly, despite this body of the literature was engaged in the study of forms of interest representation and their integration in public policy making and policy administration, investigations on business engagement with the welfare state are rare. As a matter of fact, it was long assumed that, due to the very nature of the capitalist system, a structural power asymmetry between business and labour existed. Many believed that business had at its disposals other channels to realise its interests beyond formal organisational representation in political processes, while the working-class had to organise in order to reach an adequate critical mass to promote its social demands vis-à-vis business in the public sphere. In this respect, we specially refer to Claus Offe and Helmut Wiesenthal's thesis of *state automatic support* for business interests. In a few words, these authors maintain that, since capitalists own the means of production while labour is forced to sell its work to survive, and considering the fact that the survival of the state depends on the ability of the capitalist system to reproduce itself through profit and accumulation processes, the interests of capital are protected "*even before it begins to put explicit political pressure and demands upon the government*" (Offe and Wiesenthal 1980:85)³.

While Offe and Wiesenthal assume that employers' interests are secured by their structural power, just as if there was a structural bias in the political system (Van Waarden 1995), other students of collective action and neo-corporatism, after observing the uneasy coexistence of ever-growing welfare states with the development of a market economy hinder by the international economic slump, tend to focus on the *tolerance threshold* of business towards welfare state initiatives (Vatta 2001). For example, Marin (1983) and Coombes (1982) emphasise the many reservations of business towards state intervention in

³ A similar argument can be found in the work of Lindblom (1977). According to the author, the considerable impact of business activities and decisions in the public sphere ensures business a privileged position in government, till the point that "*public affairs in market-oriented systems are in the hands of two groups of leaders, government and business, who must collaborate*", and that "*to make the system work government leadership must often defer to business leadership*" (Lindblom 1977:175). It follows that, in market systems, government officials refrain from endorsing policies that may limit business functions, in order to maintain employment, prices, production and growth, which are largely in the hands of businessmen.

the free market; Carrieri and Donolo (1983) underline business' autonomy from the state in dealing with problems of flexibility and competitiveness; Winkler (1976) recalls that welfare state activities are welcome only in phases of economic difficulty; Lehbruch (1979) stresses that employers' acceptance of governmental interference with economic activities is more likely in the case of regulatory policies and more complicated for redistributive policies.

The second source of theorisations of business' antagonism to (or begrudging acceptance of) welfare state development is more systematic than the former and comes from the scholarship of the power resources theory (Korpi 1983; Stephens 1979; Esping-Andersen 1985, 1990; Palme 1990; Kangas 1991). According to scholars writing in this research tradition, decisions on social policies result from a social compromise over alternative (re-) distributive outcomes, which is found after a vivid class struggle between business (capital) and labour. Distributional conflicts and their outcomes, in turn, depend on actors' power resources, which in capitalist democracies derive from either the structural control over the means of production (in the case of business), or the organisation of collective action (in the case of the working-class). Since these theorists view business as the market-siding part of the conflict, they attribute the introduction as well as the extension of welfare programmes to the strength of those standing for social rights to outweigh business interests in political confrontations. In particular, it is the amount of political and organisational power resources of organised labour and progressive parties (especially social democratic ones) that explains (re-)distributive outcomes. The core argument of the power resources approach is well summarised in a few sentences by Walter Korpi, one of the founders of this body of research on the welfare state:

“The central themes of this approach center on distributive conflicts reflecting basic splits in employment relations and labor markets. These splits tend to generate interactions between class, life-course risks, and resources, so that categories with higher life-course risks tend to have lower individual resources to cope with risks. Such features generate a potential for class-related collective action. Political parties based in socioeconomic categories relatively disadvantaged in terms of economic resources and relying largely on labor power are expected to be protagonists in welfare state development aimed at modifying conditions and outcomes related to market distributive processes.” (Korpi 2006:168)

Both students of neo-corporatism and supporters of the power resources theory have been radically criticised by Peter Swenson, who initiated a series of attempts to explain the establishment of social policy institutions through the militant role of employers driven by genuine economic interests. In his work on the origin of union centralisation in Denmark and Sweden, Swenson disagrees with the prevalent approach of neo-corporatist analyses, which treats employers as inert actors rather than organised agents. For him, students of neo-corporatism have largely overlooked the organisation of business⁴:

“The political economy literature ignores employer organization. Philippe Schmitter uses union organization as a proxy measure of corporatist organization in all other sectors [...]. Peter Katzenstein treats the organization of labour and business independently, but measures intersectoral concentration in peak trade organizations rather than centralisation of authority in employer organizations [...].” (Swenson 1991:516)

Moreover, in the same work he opposes a *cross-class alliance model* to the *balance of class power model* cogently advanced by Korpi (1983, 2006). Swenson’s model criticises the latter for its description of business as passive or weak in comparison to organised labour in the young social democratic political economies of Denmark and Sweden. In fact, as Swenson himself writes to explain the extensive development of Social Democrats’ redistributive social policies in those countries:

“[Business] quiescence was not a symptom of weakness or dependency. Instead, it was a product of the class-intersecting, cross-class alliance behind institutions of centralized conflict resolution that routinely served mutual interests of sectoral groupings that dominated employer and union confederations. In class-divisive, cross-class alliances these groups mutually reinforced each other’s power to control intramural competitors and opponents.” (Swenson 1991:514)

⁴ On their part, students of neo-corporatism have provided a practical and an historical explanation of their scarce attention to the organisation of business interests and its political behaviour. On the one hand, research in the field was particularly problematic, due to the high secrecy of relevant information concerning the strategic choices and internal dynamics of business organisations. On the other hand, as Lehbruch (1982) remarks, at the time when the neo-corporatist literature developed the core issue of neo-corporatist policy-making was income policy. Hence, the power of unions to obtain the compliance of their members was seen as a central variable. Nevertheless, Lehbruch himself expressed some perplexity towards this choice of research focus, stating that “it could be that, instead, the cooperation of business with government (and/or labour) and the compliance of businessmen with their associations is the most critical variable” (Lehbruch 1982:10).

Swenson elaborated probably the most articulate critique of the relentless hostility thesis. For him, social policies are established not because of employers' weakness, but rather because of the voluntary quiescence of business segments, due to converging interests with segments of labour. Accordingly, cleavages are to be found within classes, instead of between classes. The central idea is that cleavages within classes, stemming from different interests associated to the position in the system of production, may eventually result in cross-class alliances, formed to actively support a certain policy. The assumption behind this idea is that business is not a unitary actor. To the contrary, employers have different interests in labour market and social policy, depending on the economic sector in which they operate. Then, when it comes to account for the development of welfare institutions, the mobilisation of labour and its organisational strength vis-à-vis capital owners is not a sufficient explanation, because even capitalists sometimes act against the market in the attempt to promote their sector-defined material interests (Swenson 2002).

Swenson tries to prove his argument with two comparative studies. The first is a comparative historical reconstruction of the processes leading to the centralisation of industrial relations in Denmark and Sweden (Swenson 1991). This work illuminates the redistributive conflict underlying divergent employers' positions towards the institutional move of the wage bargaining to centralized structures. In particular, the enlargement of the wage gap between sheltered building trades and the internationally exposed metals employers triggered off a conflict between metal and construction sector employers. The former were bearing the costs of higher pays in the latter, where militant unions and the absence of competitive pressure from the international market freed the rise of wages, triggering pressure for wage increases outside the sector. Conversely, the need to maintain competitive fixed capital costs and to secure labour supply of metalworkers motivated employers to actively fight for a reform of the wage bargaining system. In such small states this need was even more acute than elsewhere, due to their high vulnerability to international trade fluctuations. Given this struggle within capital, employers in the penalised sectors engineered alliances with trade unions to stand for centralisation of wage bargaining. Cross-class coalitions between employers in the metal sector, farmers and unions outside the construction sector in Sweden, and between employers in the metal sector and skilled metalworkers in Denmark, pushed and eventually succeeded to obtain the wage bargaining reform that was in their common interest. In fact, according to Swenson's account, even unions were internally divided: in Sweden, unions outside the

construction sector decided to ally with capital because alternatively they were forced to negotiate wage reductions against rising unemployment and militant employers; in Denmark, the different organization of metalworkers with respect to the Swedish case resulted in a conflict between skilled and unskilled workers, with the latter opposing centralisation.

In a second comparative study, Swenson concludes that employers played a crucial role in the creation and later development of the American and Swedish welfare state, although they have never been agenda-setters (Swenson 2002). Even in the case of the US, he finds that employers were not uniformly hostile to the establishment of welfare state institutions, but rather they contributed to several social policy initiatives. Here again he argues that such positive role of business with respect to welfare state development was not the result of a strategic accommodation in the context of relatively high labour strength or unavoidable governmental initiative, but responded to pre-strategic preferences based on genuine employers' interests.

Swenson's argument has been challenged on the ground of the interpretation of employers' role in the origins of US's welfare state. As a matter of fact, also Hacker and Pierson (2002) provide an account of the American New Deal, but this is in sharp contrast with that of Swenson (2002). Putting emphasis on the interplay between institutions and interests, the two scholars suggest that before, during, and after the new deal, business influence varied very much as a consequence of changes in political institutions. According to them, no clear-cut business strength or weakness can account for early developments of the American welfare state. In particular, before the occurrence of the Great Depression, business could rely on a strong structural power connected to the decentralization of policy-making to federal states, because thanks to it employers could threaten state leaders with capital and production re-location in other states. In this way, business had a credible weapon against undesired social policy initiatives. However, this political power declined dramatically after the Great Depression, when the locus of policy-making was shifted from the states to the federal level. Then, business had to accept the changed balance of power in the political system, and some employers decided to support the passage of a Social Security Act and to accommodate their position towards the New Deal legislation, because they feared that taking an alternative position would have been worse. In other words, instead of following pure material interests, as Swenson maintains, employers "faced

strong political and economic incentives to adapt to the new policy regime” (Hacker and Pierson 2002:279).

The approach of Hacker and Pierson (2002) finds some support in the research work of Thomas Paster (2009). Similar to the two scholars, Paster seeks to interpret employers’ social policy positions in welfare state development in the light of the political constraints emerging from historical reconstruction. Studying the development of the German welfare state (1880s - 1990s), he finds that whenever employers have supported social policy initiatives, their choice was not related to efficiency-based considerations. Instead, employers have mainly been passive consenters, who accommodated their interests and accepted market-correcting policies in response to political constraints that forced them to choose lesser evils. More specifically, he identifies two principal types of political constraints: policy legacies, which reduce the range of available policy options; and the historically given balance of power among political actors, which may induce minorities to opt for second-order preferences and adjust their strategies and expectations. Then, he argues that employers accommodated their social policy strategies either to contain the raise of labour and maintain social peace or to limit the scope and generosity of less moderated policy alternatives.

Although the project design seems functional to support his thesis, the choice to focus on diachronic within-country variation and exclude cross-country comparisons may represent a problem when it comes to understand how country-specific factors that inform the political context may shape business positions and influence in national social policies. As we will see in the next section, among those factors, the literature considers particularly relevant the national characteristics of employers’ organisations and the styles of policy formation.

1.2 The thesis of employers’ occasional support

Latest developments in comparative political economy have somehow re-oriented academic attention on employers and suggested that these actors may come to actively support social policies⁵. Today, a research agenda devoted to the understanding of business

⁵ In this respect, it is important to clarify that authors in this second stream of the literature generally agree that employers cannot in any case be conceived as agenda-setters.

preferences and influence in welfare politics is becoming more and more defined. Its emergence and consolidation intertwines with the growth of the literature on varieties of capitalism (Soskice 1989; Crouch and Streeck 1997; Hall and Soskice 2001a; Estévez-Abe *et al.* 2001; Hancké *et al.* 2007), which has reversed traditional interpretations on the functioning of and the relation between welfare institutions and systems of production.

The central aim of this line of research is to explain the continued national divergence in political-economic institutions by focusing on how firms coordinate within their own environment and emphasising complementarities and feedback effects between welfare state structures and systems of production. The idea is that welfare institutions contribute to shape economic organisation models, because state regulation and social programmes alter costs and benefits of certain courses of action and therefore substantially modify employers and unions' behaviour. In fact, welfare institutions, such as employment protection legislation and wage protection (Estévez-Abe *et al.* 2001) or pensions and unemployment benefits (Hall and Soskice 2001b), may support firms in advancing their economic objectives in areas often compromised by market failures, because of their positive impact on skills formation and protection within political economies:

“Social policy is often thought to interfere with labour markets by rising labour costs or the reservation wage. But [...] social policies can improve the operation of labour markets, notably from the perspective of the firm. Unemployment benefits with high replacement rates, for instance, can improve the ability of firms to attract and retain pools of labor with high or specific skills. Disability benefits and early retirement benefits can allow firms that operate production regimes requiring employee loyalty to release labour without violating implicit contracts about long-term employment” (Hall and Soskice 2001b:50).

As far as our research interests are concerned, the literature on the varieties of capitalism highlights that business strategies and employers' perception of the fit between economic production and social protection vary between two types of production systems, that is, coordinated market economies and liberal market economies⁶ (Soskice 1989; Hall and Soskice 2001a). The role of social policy within these systems is shaped by corporate needs for the deployment of *asset-specific* skills, as distinguished from *general* skills

⁶ In coordinated market economies, employers are able to coordinate among themselves, through a dense infrastructure of social institutions, in order to produce collective goods and ensure a competitive advantage for high-skilled production. Instead, in liberal market economies, coordination among firms is based on hierarchical relations and competitive market arrangements, so that employers in these systems do not have any specific incentive to invest in forms of production requiring investment in workers' specialisation.

(Estévez-Abe *et al.* 2001). Typically, employers in coordinated market economies choose competitive strategies that rely more on asset-specific skills, while employers in liberal market economies do not face major incentives in skill investment and organise their production on the basis of more general working skills. Since employers' demand of specific skills implies a specialisation of workers in a given set of tasks and competences, which eventually leads to a strong dependence of segments of the labour force on a certain firm or sector (and vice versa), employers and employees in coordinated market economies may be equally concerned about the risk of skill underinvestment and support social programmes that protect specific skills. In fact, as the latter are vital for certain branches of production where firms invest on workers' training, the loss of trained workers is highly undesirable for employers.

Building on these insights, authors writing on the varieties of capitalism argue that welfare state development largely depends on employers, because it can be regarded as a complement to the national production system and the related skills requirement. Then, social policy programmes do not result from the balance of power between business and labour, as maintained from power resources theorists, but from the ability of those employers interested in skills protection to successfully support the establishment of dedicated social programmes⁷.

The positive material benefits of social protection for employers have been thoroughly investigated by Isabela Mares (Mares 1999, 2001, 2003). In a number of studies, this author seeks to illuminate the linkages between welfare institutions and employers' competitive strategies, in the effort to build a theoretical microfoundation of business preferences and behaviour towards the welfare state. Already in her early work on the role of employers in the development of the French and German systems of social protection, she finds empirical evidence of business support for instances of social policy. Accordingly, welfare state construction in France as in Germany did not result from inter-class conflicts, but rather from the formation of cross-class alliances between representatives of trade unions and employers' organisations. Although her argument is somewhat similar to the one of Swenson, Mares goes further in specifying within-class,

⁷ For example, Iversen's complex model on the relation between skill formation and welfare State development concludes that distributive conflicts should not be seen as inter-class conflicts, but rather as conflicts between economic segments that make different use of specific skills (Iversen 2005).

inter-sectoral cleavages. In particular, she highlights two types of economic material interests that she considers to stand behind employers' decisions to support (or oppose) social policy initiatives: workers' skills protection and risks redistribution across firms of different production sectors (Mares 1999). In a later study, Mares asks what social protection means to firms and tries to identify the factors affecting employers' cost-benefit calculations concerning social policy alternatives, with an emphasis on business inter-sectoral disagreements (Mares 2001). In her model, firms display different sensitivities for risk redistribution through social policy depending on firms' size, incidence of risk and skill intensity. For example, analysing the social policy preferences of French and German employers, Mares finds some evidence for her hypothesis that low-risk producers support private schemes of social insurance in order to contain risk redistribution, while high-risk producers normally push for the extension of social insurance coverage (Mares 2003).

While emphasising the role of material interests in shaping employers' social policy preferences at the micro-level, Mares tends to downplay the effects of political constraints on business positions. This substantially means that her model overlooks the fact that employers may scale down their ambitions in the wake of unfavourable political conditions and come to accept certain policies for strategic, rather than pre-strategic, reasons. Actually, she seems to be aware of this problem, as she acknowledges, for example, that the alliances between business and labour in the German and French unemployment insurance reforms were based on strategic decisions rather than genuine material interests:

“Although employers and unions came to the political negotiations with widely divergent views about the ideal institutional outcome, in both cases they accepted a compromise on the second-best preference, fearing that an uncompromising militancy or obstinate veto might lead to an even less desirable outcome” (Mares 2001:238).

Still, as Paster (2009) remarks, the theoretical model proposed by Mares seems to take the political positions of employers' organisations as an unequivocal indicator of the economic interests of their member firms, while strategic adjustments to the political context remain underexplored.

However, these critical observations have not been uniquely addressed to Mares' work, but they have also been extended to the overall theoretical approach of students of the varieties

of capitalism. In particular, Cathie Jo Martin and Duane Swank have pointed out that, despite being insightful, the theorisations of linkages between business organisation, economic production and social protection remain quite unclear, and so do the related microfoundations, that is, the models on the individual employers' logic of action (Martin and Swank 2004). While identifying the theoretical gaps and ambiguities of the varieties of capitalism approach, the two authors suggest that the inclusion of context-related organisational and politico-institutional factors into the framework of analysis may improve the understanding of employers' welfare politics. More specifically, they discuss the extent to which business organisation may contribute to enhance employers' support for social policy initiatives. Basically, they ask whether it is the type of politico-economic organisation in itself that leads employers to support (or oppose) social programmes, or it is instead the part of employers with an interest in skills investments and related social protection schemes to be better organised than other business segments. Martin and Swank tackle this question in a few stimulating works, in which they mix qualitative and quantitative methods and obtain some interesting results (Swank and Martin 2001; Martin and Swank 2004).

As regards the article of 2001, they find systematic evidence that the organisation of employers is one of the most significant determinants of the cross-national and temporal variation in the social policy expenditures of capitalist democracies (i.e. the so-called *welfare effort*)⁸. They also uncover a positive association between the amount of resources devoted to the specific area of active labour market policies and selected features of the political organisation of employers, such as the level of coordination among enterprises, the degree of centralisation and the level of cohesion of employers' associations.

Besides, through this empirical study Martin and Swank offer a different theoretical perspective from those presented above concerning the factors shaping corporate social policy preferences. They argue that, on the one hand, the lack of a model of micro-level deliberation does not allow to understand when and how business decides that policies are

⁸ In this work they employ both quantitative and qualitative research strategies. On the one hand, they make use of pooled-time series and OLS estimations to assess the independent effects of distinct properties of employers' associations on cross-country and longitudinal variation in total national welfare efforts and in the sole active labour market policies. They control for the following variables: years of social-democratic government, average unemployment rate, trade openness, GDP per capita. On the other hand, they conduct two short case-studies on the role of Danish and British employers' associations in shaping national commitments to active labour market policies after the 1980s.

in its interests; on the other hand, they state that any attempt to infer business interests from profit motives and patterns of economic structure “is arguably overly deterministic” (Swank and Martin 2001:891). Then, they suggest that it is the national corporatist organisation of employers that shapes support for social policy among firms and ultimately affects social policy outcomes.

In a later work published in 2004, Martin and Swank clarify their theoretical argument further, maintaining that employers’ preferences for social policy are transformed during the process of aggregating business into corporatist associations⁹:

“Employers organized into centralized, encompassing groups tend to develop political positions that transcend the narrow, particularistic demands of individual firms or sectors and, in turn, focus on the collective concerns of their diverse membership. Meeting regularly with government and labour representatives intensifies this focus on broader concerns, as employers are exposed to arguments about how social protections might contribute to higher productivity growth rates, production flexibility, or labour market stability. Thus the process of aggregating business into corporatist associations transforms employers’ preferences for social policies.” (Martin and Swank 2004:594)

To make their point clear, the membership in an organisation does not translate automatically into higher employers’ support for social policy. What makes the difference is the type of business organisation. The latter is conceived not only in terms of production strategies, but more importantly in the sense of institutional frameworks underpinning industrial relations:

“Certainly firms in many countries with corporatist employers’ associations compete with high-equilibrium production strategies, and these efforts increase their preferences for workforce skills development and labour market stability. Yet, in addition, the centralization of representational power, coordination across units, and integration of associations in corporatist policy-making forums result in greater employer support for and participation in social policy formation and implementation.” (Martin and Swank 2004:594)

⁹ In this work, Martin and Swank proceed with both quantitative and qualitative investigations. First, they test various models to check whether the impact of organisational property variables on active labour market policy spending is statistically significant and robust. Then, they present a study on firms’ participation in the implementation of active labour market programmes based on structured interviews carried out in Denmark and the UK. Thanks to this two-fold research strategy, the authors conclude that the type of employers’ association organising firms is a crucial determinant of employers’ involvement in active labour market programmes both at the national and at the firm level.

The emphasis on business organisation as a determinant of welfare state development, as well as the positive correlation found between some organisational properties and the expansion of social expenditures, offer a new perspective for the study of employers' engagement with the welfare state. Yet, Martin and Swank's findings have limited validity, due to the fact that, despite they try to compound quantitative and qualitative methods, they eventually make large use of statistical correlations to support their argument. As also noticed by Paster (2009), the causal mechanism generating the correlations between corporatist organisational properties and social expenditures requires further investigation, since it is sketched by theory, but not evaluated empirically. In this regard, more qualitative studies based on process-tracing techniques may be useful to single out both the real influence of business organisation over welfare state development and the motivations behind employers' support for social programmes. Finally, the choice of variables is loosely grounded with theory, although we recognise that data availability might have played a role in this respect. For example, business support for social policy is measured through its ideal outcome (i.e. higher levels of social expenditures), but the latter variable does not seem sufficiently close to be a good proxy of the former. Either, the selection of organisational properties is not clear from a theoretical point of view, that is, the authors do not explicitly state in what ways those properties are expected to have an impact on employers' social policy positions.

2. The two theses and their reconciliation

Scholarly interpretations of the role of business in welfare state development, of its social policy preferences and political influence, have changed considerably over the past forty years. The existence of various, at times contradictory, theoretical approaches to the topic is at least partly due to the two reasons we mentioned earlier in this chapter.

First of all, during the last decades there has been a sort of revolution in the way in which scholars viewed the relationship between production systems and the welfare state (Pierson 2000). With the development of the literature on the varieties of capitalism, national models of social protection are now seen as embedded in, instead of separated from, distinct patterns of capitalist organisation. Such interconnectedness implies that welfare institutions may alter both preferences and behaviour of social actors, in a way not

considered before. In fact, while power resources theorists insisted on the market-correcting and redistributive roles of welfare institutions, the research agenda of the varieties of capitalism points to the fact that the latter perform important market-preserving and market-fostering functions (Ebbinghaus 1998). This means that, besides correcting market failures, welfare institutions may buffer economic activities. Apparently, such change of paradigm has affected theorisations on business and the welfare state too.

Secondly, the thesis of employers' occasional support to social policy has emerged also as a consequence of historical changes. As Schmidt (2008) recalls, after a parenthesis of renewed emphasis on governmental autonomy in decision-making during the 1980s, which took over from power resources and corporatist labour-centred analyses, by the early 1990s the state lost again its centrality in comparative political economy. This was mainly due to the loss of regulatory power of the capitalist state, observed in correspondence to historical exogenous and endogenous challenges coming from macro-economic phenomena like market internationalization and deregulation. Since then, business has acquired ever-growing importance as key actor in the determination of economic and political development within mature capitalist societies¹⁰. However, in the contemporary phase of welfare state restructuring¹¹, business positions towards welfare institutions (and their change) may be different from those of earlier phases of welfare state origin and construction. While the thesis of business relentless hostility may have an appreciable explanatory power for the latter, the thesis of occasional business support for social policy seems more attractive from both an analytical and a theoretical point of view. In fact, as we have rapidly shown, there are evidences¹² that today employers are more half-hearted towards the welfare state than in the past, and this warrant further research to understand employers' support for new social programmes.

¹⁰ In this respect, Georg Menz (2005) makes a rather bold Statement: "The balance of power between labour and capital has fundamentally shifted in favour of the latter. Unions are grappling with a host of internal and externally imposed challenges: a general decline in membership, the shift from the secondary to the tertiary sector, the fading and privatization of the public sector, a 'competition State mentality', and the dictate of permanent wage moderation" (Menz 2005: 31).

¹¹ The term *restructuring* is commonly used in academic literature with reference to the overall trajectory of institutional change undertaken by mature welfare states after the Golden Age of expansion prior to the 1970s (Pierson 2001a, 2001b). To capture the same concept, the European Commission has introduced the term *modernisation* (Ferrera 2008), while other scholars have coined alternative terms, like *recasting* (Ferrera and Rhodes 2000), or *recalibration* (Ferrera, Hemerijck and Rhodes 2000).

¹² A part from the empirical studies mentioned in this chapter, we also refer to the synthesis proposed by Manow (2001).

Moreover, in spite of some theoretical and methodological shortcomings, Martin and Swank's works offer a fresh, empirically-oriented perspective to the understanding of employers' role in the development of national welfare states. Moving beyond institutional analyses based on cross-national variations in economic incentives, the authors try to complement the varieties of capitalism literature with insights into the microfoundations of neo-corporatism. True, the logic of neo-corporatist organisation of business has been challenged in recent years, since market internationalisation and the transition to post-industrialism have somewhat complicated its bargaining and governance capacity. Still, neo-corporatism is not dead. Rather, it has undergone processes of modernisation, similar to the welfare state (see e.g. Traxler 1995b; Schmitter and Grote 1997; Rhodes 1997). Hence, we believe it interesting to dig further into the processes of welfare policy interpretation generated by corporatist institutional structures, as suggested by Martin and Swank.

In the next chapter, we try to discuss in more depth the possible connections between patterns of business organisation and employers' interpretations of social policy, as well as the mechanisms through which corporatist business-state relations may cultivate employers' support for welfare state innovation. Our aim is to come up with a framework that may eventually help to embed the politics of employers towards comparable instances of national welfare reform into the politico-institutional context in which they organise themselves and develop their collective action.

III. Theoretical Framework

1. Varieties of employers' roles in social policy development

The literature reveals a variety of roles that employers can assume with respect to social policy development. Referring back to what discussed in the previous chapter, it is possible to single out four types of roles (Figure 1 in the next page).

In particular, authors focused on welfare state origin, by putting forward the thesis of business relentless hostility to welfare state expansion, tend to emphasise employers' opposition to social policy development. This opposition can either entail the mobilization of political resources to impede reforms or not, depending on the extent to which the institutional changes in question affect the economic power of business to realise its material interests. We call active opposition by means of political mobilization *antagonism*, as distinguished from a passive form of opposition to social policy initiatives of mere *dissent*. Theoretically, we could further discern a special kind of dissent, that is, *abstention*, which refers to cases when employers do not even take position on social policy initiatives and so renounce to play any role with respect to on-going public decisions. Moreover, some students of early stages of welfare state development have described how the contingent balance of power between societal forces may motivate employers to give up anti-welfare moorings and passively consent to new social policy paradigms. We can define this type of role as *acquiescence*.

Antagonism, dissent (and abstention), and acquiescence assign rather negative roles to employers with respect to welfare policy innovations, ranging from an overall inhibiting function to begrudging participation. It is only in comparative analyses of welfare state restructuring that one can find a more positive type of employer engagement. As discussed in the previous chapter, the scholarship on the varieties of capitalism and the research work of Martin and Swank have recognised that employers may occasionally come to favour the maintenance or expansion of social protection programmes, under the guidance of their interest associations. The instances of employers' active support for social policy development described in such literature provide some evidence for a more authentic

political role of business in social policy-making than the aforementioned. This is substantially a role of *cooperation*, involving both the acceptance of state intervention in the economy and the mobilization of the necessary resources to share with public authorities the responsibility for policy decisions.

Figure 1 - Typology of employers' roles in social policy development

		<i>Type of Action</i>	
		SUPPORT	OPPOSITION
<i>Form of Action</i>	ACTIVE	Cooperation	Antagonism
	PASSIVE	Acquiescence	Dissent (Abstention)

The conceptual map displayed above captures the variety of possible roles of business in relation to public decisions over welfare state development. As variation, rather than homogeneity, characterises employers' responses to social policy, in the construction of our theoretical framework we try to address two main questions.

First, *what mechanisms are at work in employers' preference formation and political mobilisation for new social policy paradigms?* Taking a look at our typology, it seems that the collective political behaviour of employers cannot be easily traced back to objective, unequivocal interests that one can recognise from the position held by these actors in the economic system of production. The picture emerging from the existing empirical studies suggests that employers not always oppose social policies or would dismantle the welfare state. As employers support welfare programmes some of the time, one need to discuss the sources and processes of preference formation, rather than imputing them by theory.

Second, *what conditions make employers' cooperation possible (or more likely)?* Since employers may play either an active or a passive role, it is necessary to problematize the capacity of business to get involved into matters of state economic governance and, in so doing, to influence public choices. Of special interest here is to examine what enables

business cooperation in social welfare reforms, so as to reflect on the conditions leading the economic group of employers to actively participate in the formulation (and eventual implementation) of state interventions into a socio-economic system. These conditions are expressed in terms of functional requirements connected to the governance role of interest associations by the more recent studies in comparative political economy mentioned earlier. However, since the existence of functional requirements does not automatically translate in their fulfilment, it is important to pay attention to the actual capacity of employers' associations to assume governance roles (Traxler 2007a). For this, here we especially want to reflect upon what motivates and enables a business politico-economic organisation to shape employers' political participation in general and, more specifically, to enhance cooperation for social policy innovations.

Existing works on the capacity of (a national system of) interest associations¹³ to organise and govern the collective action of employers in central public policy-making are attributable to two main theoretical sources. The first source consists of a number of analyses of socio-economic groups' organisability that we can group under the label of *theories of collective action* (Olson 1965, 1982; Offe and Wiesenthal 1980; Streeck 1991; Traxler 1993, 1995). Works in this tradition have tried to settle theoretical questions concerning the problems and logics underlying the ability of self-interested individuals to bend together and act collectively in the public policy arena. The second source relates to the literature on neo-corporatism, which has analysed the emergence and development of systems of bargained interest accommodation and corporatist policy concertation¹⁴ (see e.g. Shonfield 1965; Schmitter and Lehmbruch 1979; Lehmbruch and Schmitter 1982; Marin 1983; Katzenstein 1985; Streeck and Schmitter 1985; Schmitter and Grote 1997). Accordingly, corporatist systems differ from the type of interest politics that characterises so-called pluralist systems (Schmitter 1974), since the relationship between private interest

¹³ In this work we apply our theoretical considerations to both individual associations and the associational system as a whole, which together characterise the politico-economic organisation of employers in advanced capitalist democracies. From now on, when we write about employers' associations or organisation, we refer to both individual organisations and the system of relations and functions in which they are inserted.

¹⁴ Policy concertation is a specific mode of interaction and allocation among a set of privileged actors, who recognise reciprocal status and entitlements and strive to accommodate their interests until they reach relatively stable pacts (Streeck and Schmitter 1985). Policy concertation typically involves monopolistic groups of business and labour representatives that negotiate with government over specific instances of public policy change.

associations and the state is more open to cooperation and founded on logics of political exchange (Pizzorno 1978; Streeck and Schmitter 1985) rather than on market-like patterns of interaction¹⁵. As far as our work is concerned, *neo-corporatist theories* are relevant for their insights into the structural and functional preconditions enabling interest associations (of business and labour alike) to play a political role with respect to the domain of state activities. Such role brings interest associations to share with the state the responsibility for policy formulation and implementation in various policy fields, in exchange of concrete or symbolic rewards (e.g. organizational privileges, state concessions, political recognition, etc.).

In the present chapter we rely on these two sources to try to understand what motives, mechanisms and conditions may lead to employers' cooperation in the sense presented above. The chapter is structured as follows. The theoretical discussion opens with interest groups' organisability and underlying logics of collective action. In this initial part (par. 2), we will consider class-specific differences between business and labour in getting organised and empowering their central peak-level¹⁶ representative associations to exert influence on public decisions of national governments. For this, we will critically review some classic theories of collective action (par. 2.1 and 2.2), to conclude that the variability of organisational forms and strategies of collective political action among classes and political economies cannot be explained on the basis of easily recognised economic interests, deduced from the position of individuals in the society. Once clarified that the collective behaviour of social groups is guided by socially and organisationally constructed interests shaped by the political context (par. 2.3), we will introduce the core of our politico-organisational approach, which sees interest organisations as transforming agents

¹⁵ As also mentioned in the previous chapter, although corporatist interest politics has been challenged by processes of globalisation and European integration, it has proved to be rather resilient to such changes. For an overview on the topic see: Schmitter and Grote (1997); Rhodes (1997) [competitive corporatism]. For some interesting studies on national cases, see by way of example: Traxler (1996) [supply-side corporatism] and Heinisch (1999) [corporatist actors as modernisation brokers] for Austria; Regini and Regalia (1997) for Italy; Visser and Hamerijch (1997) for the Neatherlands.

¹⁶ Central peak associations are those not affiliated to a higher-level national association (Traxler 2007a, 2007b). Typically, they are confederations, that is, associations of other associations, although in some cases peak associations may have as their members both lower-level associations and single (large) companies. The existence of central peak associations is a precondition for central interest negotiations (Van Waarden 1995). In all systems of interest representation there exists at least one central umbrella organisation that coordinates the representation activities of the affiliates at the national level, seeking to represent in a unitary fashion the voice of business.

of individual self-interests (par. 2.4). In this section, we will illustrate in depth our assumption that business collective political action is the result of the interplay between economic interests and the intermediation activities of the type of political organisation that structures them in a given polity. In this way, we hope to set out an appropriate mix of micro- and macro- foundation of the social phenomena in analysis. The next part (par. 3) focuses on business as a specific economic interest group, whose high internal competition imposes distinguished imperatives to its representative organisation. Drawing from neo-corporatist theories, we will make a reasoning of the principles that guide organisational practices, that is, of the dual logic by which the formal organisation of employers structures itself and carries out its activities in response to the characteristics of the membership (par. 3.1) and the political context (par. 3.2). In this part, we will stress how organising business political mobilisation is problematic especially in terms of interest unification, and how this can eventually weaken the capacity of business to effectively exert influence on public decisions through collective action. We will also show how state assistance in the development of institutional arrangements can help promoting cooperative solutions to business collective action problems. In particular, we will consider how the type of relations between employers' associations and the government may contribute to establish the preconditions to render the organisation of business endowed with the capacity to govern members' interests, and therefore functional for public policy purposes (par. 3.2). Since such governance capacity has been considered the key determinant of business role in the realm of welfare state policies, we then try to specify the structural and functional conditions that may favour its development. To this end, by bringing together an amended version of Schmitter and Streeck's model on the functioning of the organisation of business interests (Schmitter and Streeck 1981, 1999) with the theoretical discussion of the previous paragraphs, we try to include in a single typological framework important reflections on the mechanisms leading from agents to structures and from structures to agents (par. 4). This will eventually allow us to raise a preliminary hypothesis on how business interest groups interact with different types of organisational design, and on the pathways through which such interaction may lead to different roles in social policy development (especially to cooperation). This mode of typological theorising aims to avoid the reductionism of studies entirely based on micro-foundations. What we try to obtain is a model able to balance the emphasis on micro-behaviour with the importance of macro-institutions in shaping policy positions and collective political action. In this regard, we

conclude with a methodological clarification. We want to relax our hypotheses on both actors' rationality and the influence of the context on actors' interest perceptions, so as to avoid that institutional embeddedness becomes the only possible determinant of behaviour and overshadows individual rationality. The reason for this is that less rigid hypotheses allow exploring through empirical research the interdependence (but also the relative autonomy) between the logics of actors and the logics of institutions (Lanzalaco 1990; Schmitter and Streeck 1999).

2. The collective action of interest groups: logics, problems and structures

To understand what sort of role employers may play in social policy-making, a good starting point is to ask whether a logic of collective action can be deduced. This would imply, in accordance with classic theories of collective action, that the organisation of employers into interest associations is subjected to inherent forces, and therefore greatly independent from environmental conditions stemming from the political or the macroeconomic context (par. 2.1). Alternatively, one may assume that the logic of collective action is substantially influenced by context factors like the degree of politicization of economic exchanges and the impact of political institutions on the regulation and (re-)distribution of resources in the economic system (par. 2.2, 2.3 and 2.4).

2.1 Classic theories of collective action

Early theory on the associative representation of social groups' interests has sought to explain interest politics by deducing the logic behind the organisation of self-interested individuals in specific institutional structures. Theories of collective action start from theoretical speculation on the characteristics of social groups' interests and try to predict variations in groups' organisability. Here we limit our survey of such theories to the works by Olson (1965, 1982), Offe and Wiesenthal (1980) and Streeck (1991). The main point of disagreement among these authors relates to whether the logic of collective action is universal or class-specific. For us, their contribution is useful to reflect on the relation between societal interests and collective political behaviour on one hand; on the other

hand, it helps understanding the extent to which employers are (dis-)advantaged in getting organised for business interest representation in policy-making as compared to workers.

All theories of collective action are largely indebted to the pioneering work of Olson (1965, 1982). Following his line of reasoning, collective action is essentially a matter of cooperation among rational individuals, who act together as a collective agent in order to produce goods of common interest through the interaction with other (collective) actors in the political arena. However, the production of goods may be hampered by the same actors interested in it. In fact, it can be rational for self-interested actors to take a free-ride instead of cooperating, thus paradoxically leading to suboptimal outcomes (or even the failure) of collective action¹⁷. This paradox originates from the specific nature of goods mostly produced by public policies (e.g. social cohesion, macroeconomic stability, social peace, etc.). These often share the characteristics spelled out by Samuelson (1954) for the so-called *public goods*, namely:

- *Non-rivalness of consumption*: once available to one person, the goods can be nevertheless consumed by others at no additional marginal costs;
- *Non-excludability*: it is impossible to prevent anyone from enjoying the use of the goods.

The fact that the enjoyment of these goods does not correspond to the payment of its costs paves the way to (positive as well as negative) externalities. In particular, as no one can be excluded from benefitting of public policy outcomes, some can decide not to share the cost burden of collective action and leave it to others. In this way, non-cooperative behaviours, despite rational from an economic point of view, may considerably hinder the production of goods that are in fact in the actors' common interest¹⁸. Accordingly, the reason why

¹⁷ This paradox has been epitomized in game theory by the Prisoner's Dilemma, which shows how two individuals (i.e. the prisoners) can decide not to cooperate despite cooperation would maximise their benefits.

¹⁸ This argument is applicable also to social policy-making. Although social policies are not pure public goods, because they mainly consist of transfers of either private consumption goods or the resources to obtaining these, they represent an instance of collective goods. Collective goods, like their subcategory of public goods, are subjected to the non-excludability criterion. As it is impossible to impose a price for their provision, the private production of these goods in the free-market is unprofitable, and thus they must be produced collectively, with the same problems of free-ridership.

rational actors may decide to support collective action does not lay in common interests, but rather in the existence of selective incentives offered by associative structures to those who accept cooperation.

Given these premises, Olson develops hypotheses on the type of associative structures that favour social groups' organisability. The main idea is that organisability is higher when interest domains are narrow in scope. This characteristic helps associations containing the problems of collective action described above, because it reduces the need for coordination among individual members and increases the capacity to externalise the costs of collective goods (e.g. costs related to economic resource distribution). Olson believes that strong associations are those with narrow interest representation domains, because rational actors tend to organise with the small number of individuals that share their immediate and particularistic interests. As a consequence, successful interest associations are also those that remain rather unresponsive to the demands for coordination with neighbouring, more generally defined interests. Whenever such associations obtain a certain degree of visibility and political weight, they try to lobby state authorities to distributive policies with concentrated benefits and diffuse costs. Olson conceives interest politics in terms of pressure on decision-makers, and views actors as careless of the negative externalities they may produce through their lobbying activity, like economic distortions, inefficiency or inequalities. He also seeks empirical support to his theory (although not in a systematic way) from the analysis of US's labour and business interest associations. Olson maintains that business is the most influent of all lobbies in the US because employers are organised in small voluntary associations representing particularistic interests of business segments. Moreover, he finds that, in the US political system, associations trying to represent the interests of business as a whole, as well as any other inclusive interest organisation (e.g. unions), are far less politically influent and face major organisational problems. Against these empirical observations, Olson concludes that the logic of collective action must be universal, that is valid for business and labour interests alike.

Overall, Olson's collective action theory makes two important points. The first is that common interests do not necessarily lead to collective action, since they can encourage free-riding behaviour. The second is that interest groups' collective goals and the performance of their associational activities vary with the representational domain. While narrow interest groups promote a type of (re-)distributive politics that is performance-

inhibiting, encompassing interest groups tend to pursue more moderate policy goals and strategies. This is explained by the fact that narrower groups can more easily externalise the negative consequences of their collective action than groups covering a wider range of interests that have less third parties on which to discharge the costs of their (re-) distributional politics.

Nevertheless, Olson's theory has also been subjected to criticism. For our purposes, it is insightful to rapidly examine the critique made by Offe and Wiesenthal (1980). The two authors question the existence of a universal logic of collective action on the basis of theoretical speculation about class-specific differences in business and labour's interests and goal formation. Following their argument, the difference between the two logics derives from the asymmetric power relation between the two classes in the capitalist system, which conditions groups' interests and organisability. Since the fulfilment of the economic interests of any capitalist society depends on the investment decisions and consequent capital accumulations of firms, a large part of business interests are realised above the level of business associative action, i.e. through state policies¹⁹, and below it, i.e. at firms' level. Hence, business has an organisational advantage in comparison to labour, because it can concentrate collective action on a narrower range of interests and goals. By contrast, the identification of collective interests and goals is more ambiguous in the case of labour, for at least three reasons: (1) the resort to collective action is the only way to make workers' interests felt in the sphere of public affairs; (2) while capitalists' interests clearly consist in maximising returns and minimising costs, the interests of workers reflect different needs, corresponding to different ways of living labour; (3) workers do not solely have antagonistic interests with respect to business people, because the good functioning of firms and accumulation processes are also in their economic interest. As a result, while business' logic of collective action is utilitarian and monologic, that of labour is dialogic in the sense that it is complicated by processes of reconciliation between individual and collective interests and goals. Reflecting on labour's problems of goal formation, Offe and Wiesenthal come to opposite hypotheses to those of Olson concerning labour's

¹⁹ For a summary of Offe and Wiesenthal's thesis of state automatic support for business interests, see the previous chapter.

organisational practices: workers' organisations should present lower density²⁰ and organisational unity than capitalists' ones. Moreover, the authors explain that these organisational disadvantages may push unions to adopt an opportunistic behaviour. In short, *opportunism* means that unions renounce to part of their anti-capitalist moorings in exchange of state support for their organisability and political influence.

Offe and Wiesenath's theory gives three important hints to our research questions. First, business and labour may have a different interest politics, due to differences in organisability. Second, interest politics can be motivated not only by clearly defined socio-economic interests but also by opportunism. Third, in their activity of organising interest groups, associations may face severe problems of goal formation.

After running some tests based on data from the OBI-project²¹, Streeck (1991) has rejected Offe and Wiesenath's hypothesis of labour's organisational disadvantages. In a nutshell, Streeck starts from the observation that if workers had more problems of organisational unity and member recruitment than employers, then in any national interest representation system one should find a higher number of workers' associations as compared to business interest associations. Later, he shows that this proposition does not hold against OBI-project data, as he finds that there are much more business interest associations than unions (in a ratio of 16 to 1). He also notices that the number of business interest associations is comparable to that of unions, if one looks only at *employers' associations*, which represent employers' labour market interests and are distinct from *trade associations*, representing other types of business interests (i.e. predominantly product market interests). The latter finding persuades Streeck to argue that there are no class-specific differences in the logic of collective action, and that the higher fragmentation of business associational systems is due to the need of business to engage with product market interest representation, as opposed to labour.

²⁰ Density is intended as the ratio of actual to potential members. This organisational dimension captures the Olsonian problem of member recruitment for collective action discussed earlier.

²¹ The OBI-Project (Organisation of Business Interest Project) is a large-scale comparative study launched in the 1980s by Wolfgang Streeck and other leading scholars such as Philippe Schmitter and Alberto Martinelli. The project aimed to collect information on the characteristics of business associational structures in 9 countries. It is seminal for any research on organisational capacities, resources and strategies of employers' associations, and we will draw on it later in this chapter (see *infra*: Schmitter and Streeck 1981, 1999).

Streeck's empirical work leads us to consider an important analytical distinction between employers' associations, which represent in fact the minimal unit of our empirical investigation, and trade associations, which remain out of the scope of our research. Still, the work leaves open a theoretical puzzle, as explained by Traxler (1993, 1995). In particular, Traxler maintains that Streeck's argument risks to end in circularity when it explains labour's more unitary organisational structures with class-specific differences in associational structures (i.e. the *explanandum*) related to unions' focus on labour market interest representation. In the next paragraph we expound Traxler's critique more extensively, as it not only involves Streeck's work, but also the other theories of collective action we have reviewed so far.

2.2 Social class and organisability: Traxler's critique of theories of collective action

Classic theories of collective action ascribe organisational advantages to business in terms of the necessary resources or organisational capacities to have influence over public affairs. This common conclusion is quite puzzling, since it derives from competitive hypotheses about the way in which interest distribution within classes influences group organisability. For instance, Olson attributes the advantages of business to its high class interest heterogeneity, which allows forming particularistic associations with less organisational problems and stronger lobbying power than more unitarian ones. Instead, Offe and Wiesenthal explain the same advantages with the lower heterogeneity of class interests characterising business but not labour, in the belief that the realisation of a large part of business interests flows through channels other than associational action.

In this regard, Traxler's critique of the aforementioned theories addresses, more or less directly, two questions that we consider relevant to our theoretical construction:

- Is it possible to logically deduce collective political behaviour through theoretical reasoning on the sole characteristics of business (and/or labour) economic interests?
- What is the impact of class position on the organisational and political success of collective action?

Traxler (1993, 1995) tries to test rival propositions on business and labour organisability, as put forward by the various theories of collective action, starting from one crucial consideration. He observes that the main reason of incoherence among the theories is that they address different dimensions of organisability. Therefore, in his work, Traxler chooses to define organisability as a multi-dimensional phenomenon, and to test hypotheses²² on class-specific differences in organisability on the basis of the following analytical dimensions:

- *Generalizability*: the capacity of (business and labour) interest associations to cover a wide range of interests, thus demarcating a comprehensive (i.e. generalized) representation domain. This dimension of organisability corresponds to that studied by Streeck and is measured by the number of associations belonging to a national system of interest representation.
- *Associability*: the capacity of (business and labour) interest associations to recruit members within their own representation domain, that is, to overcome the problem of collective action described by Olson. It is measured through associational density, as defined in the previous paragraph (footnote 8).
- *Governability*: the capacity of (business and labour) interest associations to unify divergent member interests and impose common goals despite the risk of members' defection, that is, to overcome the goal formation problem discussed by Offe and Wiesenthal²³. It is measured considering the number of associations that are affiliated to a national peak association²⁴, because these can be assimilated to sub-units specialised in advancing the particular interests of their members within a wider framework of collective interest representation. The idea is that the higher the number, the lower is governability of the represented interests.

²² As in Streeck's empirical study, data are taken from the OBI-project nine countries database. Traxler's test makes use of nonparametric statistics.

²³ In the work of 1995, Traxler makes it clear that governability implies overcoming also a problem of compliance. Accordingly, interest associations must not only filter members' interests in order to define collective interests, but also ensure that members will eventually comply with associational goals. This aspect becomes relevant when interest associations do not function as lobbies. While the latter fit in systems such that described by Olson, in systems where the achievement of collective pacts between business and labour is considered a form of economic governance (see also *infra*), the compliance with associational agreements is a fundamental problem of collective action.

²⁴ As seen under par. 2.1, central peak associations are those in charge of unifying sectoral and other specific interests at the higher level of aggregation. This is why Traxler refers to them.

Traxler comes to some interesting results for our discussion. First of all, he finds that the logic of collective action is not universal. Then, he specifies that no clear-cut class-logic can be identified either. While business has advantages in terms of associability with respect to unions (measured by a systematically higher organisational density), it displays disadvantages in the two other dimensions of organisability. As for governability, statistics show that there are more business interest associations whose number of affiliates is higher than the median of the observed statistical distribution, as compared to unions. This result holds true also limiting the observation to the sole pure employers' peaks, meaning that business interest unification is complex also in the area of labour market interests, where employers should be united against labour and thus experience less internal cleavages than in the field product market interests. To the contrary, the type of interests represented discriminates business organisability in the dimension of generalizability. In particular, Traxler uncovers that, within the set of nine country systems, there is more particularism in business' interest domains than in those of labour only as far as product market interests are concerned. In this area, he distinguishes two main lines of intra-class conflict: horizontal, related to forms of organisation aimed to drive competitors out of the market; and vertical, concerning the exchange conditions between suppliers and customers. Traxler interprets the fact that a similar particularism cannot be found for labour market interests by reading over Offe and Wiesenthal's argument. In short, business can possibly cope with less unitary organisational structures in the field of product market interests because several of them are directly defended (or promoted) by either firms playing on the market or the state.

Referring to the questions put forward at the beginning of this paragraph, Traxler's study finds that all theories of collective action lack of empirical support in at least one of the three dimensions of organisability, proving that the logic of collective action cannot be unequivocally deduced from inherent forces imputed to actors' socio-economic position. Hence, economic approaches with a society-centred vision of politics, for which political phenomena are the aggregated consequences of easily recognised individual self-interested behaviour, are inadequate to understand (business) collective action. More attention to micro- and macro- political dynamics is needed to interpret problems and logics of collective action. Besides, Traxler's findings about the impact of class position on organisability allow spotting at least two relevant theoretical insights for our research.

First, while business defection from membership seems to be rather low (relatively high associability), defection from collective goals is much more probable than in the case of labour (relatively low governability). And second, if the realisation of labour market interests in modern welfare capitalism largely passes through associations' representation activities, then we need to examine further the logic of collective action to understand business role with respect to social policy.

2.3 Interests and organisational context: the political logic of collective action

As we have seen, so-called economic approaches leave some theoretical gaps, due to their fundamental assumptions about the relation between economic action and political action in democratic capitalist polities. We separately discuss two key shortcomings of their theoretical speculation on socio-economic interests and associations' representation activity.

(1) The interests requiring political representation, that is the goods interest associations must seek to produce, are not a priori defined in a phase that analytically precedes that of collective action (Lanzalaco 1990). If such interests were given, then there would be no organisational problems of interest unification, and organisability would be one-dimensional in the way described by Olson rather than multidimensional as Traxler shows. Actors are not interest takers à la Olson when they opt for political mobilisation, and before the phase of associational action the substantive content of represented interests is ambiguous not only for workers, as Offe and Wiesenthal theorise, but also for employers. Therefore, associations²⁵ that want to be successful in their interest representation activity must not only ensure the support of the largest number of members, but also coordinate members' behaviours towards common general objectives. In this sense, for our analysis it is important to consider that employers, just like any other politically organised actor, face two distinct organisational problems. As shown, the ability of self-interested individuals to embark in cooperation to produce collective goods is a *matter of goal formation*, besides being

²⁵ We recall that what said for associations can be applied to the entire system of interest associations too (footnote 1).

a matter of membership (Traxler 1993). This implies that, apart from the genuine collective action problem, related to the choice of individuals between group cooperation and defection, the phenomenon of interest representation is confronted with a problem of bargaining over the distribution of costs and benefits arising from the transformation of self-interests into collective goals (Elster 1989). Thus, whether collective action goals consist in general or particular interests, or in public or private good production, depends on the way in which associational structures aggregate and articulate group interests²⁶. As more, what individuals perceive as their collective interest before participating in collective action remains theoretically unpredictable. Empirical observation of systems of interest representation, like that of Traxler's work or of other studies of the neo-corporatist literature, shows that organised group interests are the result of a multi-faceted interaction between societal and organisational structures, for which the substance of collective interests depends on the way in which interests are organised as much as organisational structures depend on the interests to represent (Streeck and Schmitter 1985).

- (2) Nowadays, the size of associations (see: Olson) or the structural power resources of actors (see: Offe and Wiesenthal, but also authors of the power resources school) tell us little about the influence that individuals, when getting organised, manage to exert in the public policy domain. Analytically, the organisation of interests has to remain distinct from their realisation (Lanzalaco 1990). The lack of this distinction explains the counterintuitiveness of Olson's conclusion that smaller groups are more politically influential than bigger ones. Olson makes organisations' political weight coincide with the ease of recruiting members associated to narrower representation domains. However, as also Traxler (1993) recalls, visibility and political weight grow with representativeness, and so it is more logical to think that bigger organisations have more resources to spend in the political arena and hence more capacity to play a significant role in processes of economic governance. The point is that political weight is always socially mediated. In fact, given that associations (or systems of associations) are the vehicle through which economic groups act in modern political systems, the power held by such associational structures to successfully promote members' interests

²⁶ We return on the problem of goal formation later in this chapter, to link it more directly with our opening discussion on the variety of roles of business in social policy development.

is shaped by factors connected to the political context. Above all, the ability to realise members' interests is sensibly constrained by the interests and power resources of other political actors²⁷. As the meeting with the latter does not take place on the terms regulating economic exchanges in the market, even actors with huge economic resources (like capital owners) have no a priori advantage concerning the ability to defend (or promote) their interests successfully. Indeed, in the political mode of action, as distinguished from the economic mode²⁸, the conditions to realise interests through public decisions are based to a great extent on politico-organisational (rather than sole economic) resources. These, in turn, are not always granted, but at times even jeopardized by the level of economic resources possessed by groups' individual members²⁹.

Considerations under points (1) and (2) lead us to maintain distinct the guiding principles and imperatives of collective political action from those governing the behaviour of actors in market-like relations. Political principles and imperatives involve the necessity, common to any actors who want to be successful in the political arena, to solve the problems of collective action, understood as problems of political mobilisation. As also stressed by Schmitter and Streeck (1999), on the one hand, economic actors in modern democracies must become political actors to acquire direct influence over public affairs. For this, any social group, regardless of its economic endowments, needs to acquire a minimum of internal cohesion, a sense of solidarity despite the existence of internal divisions and a leadership able to legitimately impose discipline and costs of collective action on members. On the other hand, to exert influence within the institutional framework of democratic polities, organised groups need to formulate their objectives in terms of commonly accepted values (i.e. *public* interests), so to represent, in their political positions, a symbolic social status embodying rights and entitlements that can be regarded as legitimate.

²⁷ Employers' associations interact with other organisations, such as unions and political parties, and with public authority institutions.

²⁸ This distinction is in line with that operated at the beginning of the previous chapter between economic and political actors.

²⁹ We will see that employers' organisational problems of governability and generalizability can be reasonably explained in function of their higher economic resources with respect to workers.

Problems of political mobilisation put any actor, in principle, at the same level of the respective opponents. As a result, they increase uncertainty about successful strategies and collective goals, limiting the possibility of individuals to act according to logics based uniquely on objective economic interests. This means neither that the participants to collective actions behave in an irrational way, nor that collective action must be multi-logical as a consequence of the multidimensionality of organisability, as suggested by Traxler (1995). Rather, the logic of collective action is the same for all kind of actors and is essentially a *political logic*. Let us briefly clarify this assumption.

Considering the variety of events potentially producing externalities (positive or negative alike) on actors' welfare, in theory it would be possible to impute a wide range of interests to individuals. Nevertheless, all these interests have in common the fact that their realisation is socially mediated by other actors, and thus by the capacity of influencing the behaviour of those actors. Lanzalaco (1990) called this capacity potential power, and defined collective action as a strategy of maximisation of potential power. In practice, when we speak about the logic of collective action, we have to think about a political type of rationality that induces actors to submit to mechanisms of collectivised decision and to bind together in associations in order to coordinate individual behaviours and resources to produce new political power resources. The latter are necessary to defend (or promote) interests that actors would not manage to realise on the basis of the resources they individually control. Therefore, whatever the content of interests actors want to defend (or promote), they have first to make considerations on their own potential power and how to maximise it³⁰.

The mentioned priority of maximising resources³¹ helps us clarifying how Traxler's empirical findings on the multidimensionality of organisability are not in contradiction with our assumption that the logic of collective action is one. In particular, the variation observed by Traxler in the organisational forms of business and labour (among each other and across countries) should be seen as the result of the interplay between the interests to organise and the contingent distribution of resources between group members and within

³⁰ Already in 1925, Weber made it clear that the organisation (he used the term *Partei*) must be conceived as a power instrument especially for those who cannot derive power from status or class (p. 631).

³¹ Here we do not understand resources as class structural power differentials, but rather in the sense proposed by Traxler (1993). Accordingly, resources are any means (being economic, political or ideological) that can be used to identify interests as common and important for collective action on one hand, and on the other hand, to realise such interests by influencing public policy processes.

the political context. For what discussed above, resources not only condition the choice between collective and individual action, but also which interests, out of the range of all objective economic interests, are defined as politically relevant and represented through the activity of associations. To simplify, on the one hand, groups' internal distribution of resources is crucial for the identification of collective goals, because uncertainty about the costs and benefits of the latter represent an incentive for the most resourceful members to try to influence the process of goal formation at the expenses of the others (Traxler 2007b). On the other hand, the conditions of the political context in which actors play, by setting constraints and opportunities, define resources and courses of action at actors' disposal.

To sum up, we make an analytical distinction between the reasons that push private individuals to organise in order to enter the political arena and the interests that are pursued collectively. The latter are not formed in society, but rather determined during the course of collective action by processes of intra-organisational bargaining (i.e. among the participants of associational action) and inter-organisational bargaining (i.e. between interest groups' representatives and public as well as private interlocutors³²).

In the next paragraph we introduce our approach for analysis, which seeks to overcome the discussed limits of society-centred approaches.

2.4 Organisations as transforming agents of economic interests

The approach we adopt to study the political behaviour of collective actors in general, and employers' associations in particular, differs from the economic one for the fact that it recognises the autonomous role of politics in the definition of economic actors' interests and strategies. Under this perspective, that we name *politico-organisational approach*, the context in which actors are embedded (and the related power distribution) has an influence on social groups' political mobilisation³³. In fact, we have described collective action as a strategy of actors' potential power maximisation (Lanzalaco 1990), and assumed that

³² Public interlocutors are typically the government or the public administration, while private interlocutors include both organised opponents and sectoral associations within the same class.

³³ Indeed, in the previous paragraph we have addressed questions like *what do organised actors do to maximise their power?* or *how can the power distribution institutionalised in a given context constrain actors' behaviour?* instead of questions typical of society-centred perspectives, such as *which structural contingencies explain the power held by the various organised actors?*

organisational motives and practices are definitely connected to actors' need to create new power resources to defend (or promote) their interests vis-à-vis other public or private actors, in a specific historical phase. The idea is that, the more democratic political institutions intervene to regulate and mediate economic processes, the less economic actors are able to realise their interests through market action and the higher is the incentive to develop a capacity for political mobilisation. If we find this reasonable, then we can agree that, in any given context, the way in which the organisation of a group's interests is formally structured reflects the need to politicise the interests of the group in response to the politicisation of economic exchanges. Such context-related variability of the resort to formal organisation implies that associations (and associational systems alike) may assume a variable functional relevance to their members. Depending on the importance of collective action for members' interest realisation, the formal organisation of their interests can assume more or less complex structures so to enable members to exert influence on the political sphere. In modern times, interests are organised in structures able to accommodate members' demands with those of the political system on the basis of the perceived need of politicisation, because it is the process of deliberate and permanent organisation that allows the imperatives of the political domain to enter the social relations of a collectivity (Schmitter and Streeck 1999).

Against this background, we conceive interest associations (and associational systems) in the way suggested by neo-corporatist theory. In particular, while economic approaches see interest associations (and associational systems) as transmission belts that transfer interests from the society to the political system, we embrace a *political view of organisational structures* (Streeck and Schmitter 1985). Accordingly, interest associations, as any other type of political organisation, translate interests into the political system, mediating between the logics of two different environments: the domain of the membership and that of politics³⁴. In this sense, associations (and associational systems) do not simply represent interests, but also they politicise them, carrying out a function of *interest intermediation* (Schmitter 1977).

Associational structures define scope and goals of collective action through two types of organisational processes. On the one hand, they select which interests are included in or

³⁴ In this sense, the role of associations (as well as the entire associational system of interest representation) is comparable to that of other political organisations, such as political parties, which transform the various interests in specific political demands and actions (see e.g. Sartori 1982).

excluded from interest representation (intra-organisational processes); on the other hand, they establish more or less formalised relations with other interests that can produce externalities (i.e. positive or negative effects) affecting member interests, trying to coordinate interests, resources and behaviour within more general interest aggregates (inter-organisational processes).

Hence, associational structures give relevant information on the way in which individual economic interests are interpreted in a system of interest representation and the extent to which they remain unchanged in the definition of the collective interest. At the same time, associational structures reveal the weight of associational activity vis-à-vis members' economic action, that is, whether it prevails a collective definition of group interests, geared on the set of constraints and opportunities generated by the societal power constellation; or a narrower definition of organised interests, reflecting membership's particularism.

Over a reasonably long period, these structures become relatively stable formal interest organisations that institutionalise, within a given polity, specific patterns of interest intermediation. It is the analysis of such formal organisations, we argue, that may crucially advance our understanding of interest politics³⁵. Any formal organisation of interests is both a good indicator of the influence of context variables (especially the power constellation) on the way in which individuals perceive their interests; and a behavioural expression of how associations interpret their constituent interests to transform them into political action³⁶. In this sense, in Schmitter and Streeck's work, to whom we will refer

³⁵ We treat interest organisations as (political) institutions in the tradition of new institutionalism (see e.g. the seminal work by March and Olsen 1984). Following North (1990:3), institutions are "*humanly devised constraints that shape human interaction*" and consist in a set of formal (and informal) rules that actors generally follow for normative, cognitive or material reasons. Although some authors writing in the tradition of the new institutionalism distinguish organisations from institutions, here we adopt a loose definition of institutions that includes organisations, as also suggested by Hall and Soskice (2001b). This seems legitimate, considering that organisations are basically durable entities with specific rules and a formally recognised membership. Like institutions in new institutionalism, organisations affect the articulation and expression of interests and, by influencing resource distribution among actors, the type and outcomes of political participation. Moreover, to the extent that institutions can be conceived as means to reduce the uncertainty connected to human interactions (North 1990), organisations can be seen as a solution to minimise the uncertainty of interest conflicts and its related costs (Traxler *et al.* 2001).

³⁶ Our theoretical discussion fundamentally tries to balance the role of individual interests in collective actors' behaviour with that of associations (associational systems) in shaping and constraining members' behaviour and the way in which they perceive their interests. By doing so, we attempt to compensate the emphasis on micro-behaviour of economic approaches with a macro-

more extensively later, interest politics is significantly identified with the *politics of formal organisation* (Schmitter and Streeck 1999).

Next we try to apply a politico-organisational approach to the analysis of business interest politics in welfare policy, focusing on the structures and mechanisms that shape collective interests and make certain type of political action more probable.

3. The organisation of business interests

In this work we adopt a politico-organisational perspective to analyse the role of employers in social policy development. This means, in principle, assuming that the collective behaviour of business actors is shaped not only by economic performance requirements, but also by the intermediation activities of interest associations (associational systems) with the political context. Since employers' collective action in social policy (as other types of public policy) is framed and moulded by their formal organisation (par. 2.3, 2.4), the focus of analysis shifts from the behaviour of individuals to the behaviour of their organisation.

The function of transforming agents of individual interests (par. 2.4) makes employers' interest associations and their leaders *Janus-like*: they must compromise between the demands and behaviour of two sets of resourceful actors, employers (capital owners who control employment and income levels in the labour market) and the state (endowed with legitimate control of coercion and of the authoritative distribution of public resources and functions). The formal organisational structure and the behaviour of associations representing employers' interests are constrained by the often conflicting demands of the two environments.

On the one hand, employers are primarily driven by competitive market forces, so that the resort to formal organisation and political action is a second choice, which intervenes when the pursuit of interests through economic action in the market do not lead to satisfactory results³⁷. As rational self-interested actors, employers tend to prefer simple organisational

foundation stressing how the political context conditions actors' choices and actions (see e.g. Paster 2009:36).

³⁷ In the market, employers hold an advantage over workers in terms of resources (i.e. control over investments), while in the political arena they face the same uncertainty about the policy outcomes of collective action, as any other political actor. Nevertheless, in order to limit the uncertainty of free market competition (especially in the contemporary phase of accelerated international

structures, as much geared on their immediate economic interests as possible; whereas they hardly accept to bind in associations combining many heterogeneous interests. This brings problems of member recruitment to associations and makes it difficult for them to grow in size and become resourceful through their members (see: Olson, par. 2.1).

On the other hand, state interlocutors generally have the strategic objective of enhancing their capacity of hierarchical coordination of the socio-economic system, although the commitment to this objective is proportional to the level of interventionism that characterises the structure and role of the public authority in the society. The general characteristics of the state highly constrain associational action, because they determine the influence conditions of private interests over public decisions. State officials may not want to share part of their decisional and administrative authority with private interest associations they do not control, and potentially they may outlaw them. For this, if an organisation wants to grant the production of collective goods to its members through interest representation, it may have to acquire structures and functions that assure some form of control over the functional interest of business actors to state actors. For example, they may have to become more inclusive, internally coordinated and strong enough to make members comply with agreements taken in the public sphere.

As they insert themselves in between market and authority exchanges, interest associations (and the entire system of interest representation) are forced to produce goods at conditions that satisfy both the sets of actors. Thus, the formal organisational context determines the extent to which associations need to mediate between the two logics of exchange and to acquire the necessary structures to maintain their political viability. Following Schmitter and Streeck (1999), we refer to these two logics as the logic of membership and the logic of influence. As the two scholars illustrate, following the logic of membership, interest associations structure themselves and act so to offer sufficient incentives to members to extract from them adequate resources for the maintenance of the association (associational system alike). At the same time, interest associations respond to the imperatives of the logic of influence, that is, they organise so to offer sufficient incentives to gain access and influence over public authorities to extract from them adequate resources to survive and increase their weight on the political market of interest representation.

economic integration) and cope with welfare state development, employers need to collectively produce those collective goods that the market does not provide.

In the next sections we discuss the two organisational logics in more detail and re-consider class-specific problems of interest organisability with a focus on business interests. In par. 3.1 we go onto the question of how the properties of employers' formal organisation vary systematically with the characteristics of the group of potential members. In par. 3.2 we discuss how the type of interaction with state actors, by determining a certain ability of business to maintain its structural domain over economic, social and political processes, contributes to characterise the formal organisation of employers in different polities.

3.1 The logic of membership: employers' interests and organisability

Under paragraph 2.3 we have seen how class-specific differences in organisability result from the interplay between interests and contingent resource distribution in the society. Here we focus on whether and how employers' collective action can be organised. What makes the difference between employers' and workers' interests and resources is basically their socio-economic position, which leaves the control over economic exchanges mainly in the hands of business. Employers have the unique power to control means of production and investments, and this ensures them, in principle, to dominate the production and distribution of the economic wealth of nations. However, since in modern welfare states the democratic processes allow other actors to have an influence on the allocation decisions of national systems, employers need to organise in order to make their interests felt in public decisions over socio-economic governance.

As partially said earlier, the higher resource availability gives to employers an advantage over workers in terms of associability (par. 2.2). Bearing the costs of membership is less of a problem for them, especially if employers are owners of large enterprises. This statement is proved by Traxler's finding that the propensity to associate grows with firm size³⁸ (Traxler *et al.* 2001). Following the author, large firms are those more able to sustain the start-up costs of association because they have more resources than small and medium enterprises (SMEs). For the same reason, large firms are also those with high influence on associational goal formation. This is why, in some systems, SMEs may want to establish

³⁸ The density of employers' associations appears higher when calculated as the proportion of employees working in the associations' member firms instead of as the number of firms covered by the associations (Traxler 1993; Traxler *et al.* 2001).

special interest associations, according to their need of special representation and the incentives provided by the institutional framework.

Traxler's interpretation leads us to concentrate on the actual organisational problem of business: interest unification. The organisation of business interests is complicated mainly by its difficulty in demarcating (and later governing) a domain that includes a wide range of employers' interests. Such difficulty is due to a paradox of power, for which the higher structural influence of business over politico-economic processes corresponds to a lower capacity to exert influence through collective action. In particular, the higher availability of resources of business, as compared to labour, produces not only a superior capacity to realise self-interests at the individual level, but also higher intra-class interest conflicts. The latter do not uniquely affect employers operating in different sectors, but also (and more importantly) employers of the same economic category. This because the logic of the market implies that employers (and their firms) can be driven out of business by business competitors in the same field of operation.

As a consequence, across political economies, business usually shows lower organisational capacities in terms of generalizability and governability (par. 2.2). With respect to generalizability, employers' associations find it difficult to organise business as a class. Although it is easier to find a common denominator in the field of labour market interests (par. 2.1), even in this area business interest associations hardly manage to define a comprehensive interest representation domain. In fact, a broader coverage of labour market interests can well reinforce the political weight of business as a class, but at the same time can provide more resourceful members with an opportunity to play-off market competitors. In view of this, and given that employers experience less need to organise in unitary structures so to compensate shortages of class power resources than workers, the logic of membership makes business prefer particularistic (and rival) interest domains, leading to usually rather fragmented systems of interest intermediation.

Besides, business interest unification is problematic also in the dimension of governability (par. 2.1). Also in this case, we can explain it with market-driven competition and employers' high capacity to pursue their interests individually. In particular, the intense intra-class competition increases the opportunity costs of compliance with collective goals and agreements, producing higher pay-offs for non-cooperative behaviours among business actors. Employers face a mix of divisive and common interests in relation to other employers that complicate the choice between individual and collective action. On one

hand, any employer is interested in collective goods like the defence of the system of free enterprise or the regulation of competition and other control mechanisms sustaining the good functioning of the market.

On the other hand, though, such enlightened perception of self-interests in terms of the interests of business as a group is in contradiction with the immediate, short-sighted interests of single employers, who have no individual rational motivation to cooperate for the collective production of goods (Schmitter and Streeck 1999). Again, the logic of membership discourages the establishment of encompassing associational structures of representation, because the broader the scope of the interests organised, the higher the problems of free-ridership prevention. Employers are in fact more prone to defection than workers, because non-compliance represents a potential advantage on the market over conforming members. Then, employers' associations paradoxically tend to be weaker than unions on the political market, since they cannot fully grant (neither to members nor to interlocutors) that the goods produced through collective cooperation will not be taken advantage of by non-cooperative competitors.

The organisational analysis of business collective action brings us to notice that, in modern welfare states' interest conflicts, there is a power asymmetry not only at inter-class level, but also between individual employers and their interest organisation. In many cases, the resources of employers' associations (e.g. lobbying on social policies, steering public relations, etc.) could be autonomously mobilised by individual business actors, while the resources employers individually hold (e.g. control over investments or employment levels) go far beyond the control of their associations (Traxler 1993). Such an asymmetry makes the organisation of business interests less comprehensive and politically resourceful than labour's organisation and, *ceteris paribus*, renders employers less able to produce collective goods and become political actors.

Despite some of the problems of employers' political mobilisation are overcome by the fact that the market and the state promote a significant part of the generalised interests of business³⁹, employers may develop a need for effective associative action in response to

³⁹ See Offe and Wiesensthal, par. 2.1, but also Lindblom (1977).

societal conditions, which may force them to balance the logic of membership with the logic of influence. We shortly list a few of such conditions, drawing from the literature.

- The increasing intra-class competitive pressure related to globalisation may push employers to organise in order to prevent behaviours that are detrimental to the free market competition and the mode of production of welfare capitalism (e.g. unfair competition, social dumping and the like).
- The growing uncertainty about interests and strategic production priorities, which characterises advanced stages of technological development and internationalisation of capitalist economies, may lead employers to exit from logics of action-reaction to unions' behaviour. In this context, the organisation of business interests may allow employers to govern the uncertainty of the economic system by establishing relations of continuous cooperation with unions, in the effort to ease the coordination of markets (Streeck 1987)⁴⁰.
- The relative importance of the polity over market allocation mechanisms may compromise the sovereignty of business over investments, employment and profits, through policies of economic (re-)distribution. As Schmitter and Streeck (1999) highlight, the central task of business interest associations is to fend off political attacks over business priorities, containing the irrational redistributive tendencies of political democracies. Under a certain threshold, associations may bring employers to tolerate a minimum level of state (re-)distribution if it is functional to ensure the legitimacy of the social system and low inter-class conflicts⁴¹.
- The type of state may have an influence over employers' organisational decisions, as we will also see later. This because the state can bias the conditions of access and success in the arena of public policy. For example, Grant (1993) distinguishes between a *company state*, which considers representation by firms legitimate, and an *associative state*, which recognises the special role of political intermediaries to employers' associations.

⁴⁰ See also the varieties of capitalism literature.

⁴¹ See also Paster (2009, 2012) and the works of the literature on neo-corporatism related to the business tolerance threshold, presented in the previous chapter.

3.2 *The logic of influence: welfare states and employers' political organisation*

The contextual need of business to undertake successful associational action often requires higher efforts of coordination between employers and their organisation than those envisaged by the logic of membership. Unless the state is rather weak, easily influenced by private economic interests, and most of the allocation decisions are taken by the market, employers cannot simply rely on their huge economic power, but they must favour the concentration of resources to the associational level⁴². This brings about what Traxler (1993) called the *paradox of economic governance*: as the rules of success on the political market are different from those of the economic one, to gain political influence over public decisions business must reinforce its interest organisation (Traxler 1993).

Since the state determines the conditions of private interest groups' political influence over public affairs, all interest organisations, included those of business, are indeed asked to reformulate the political demands of the membership in function of the set of constraints and opportunities determined by the positions and power of public (and other private) interlocutors. To carry out this activity of interest intermediation, though, organisational representatives need a certain freedom of striking compromises and the ability to defend the agreements reached with other political actors vis à vis members. However, business class-specific problems of generalizability and governability may limit the political power of its organisation, given that this depends not only from the ability of organisational leaders and professional managers to mobilise members, but more importantly from the ability to control such mobilisation (Van Waarden 1995).

In this respect, even employers' organisations may be prone to opportunism, although not in the same way of unions (Offe and Wiesenthal, par. 2.1). Opportunism for employers' organisations means that they can come to renounce to part of their anti-unions objectives and neo-liberal moorings in exchange of external support in resolving their members' goals⁴³ (Traxler 1993); a support that typically comes from the state. Then, in some

⁴² In this respect, it is worth noticing that the Janus-like condition of interest organisations, and the double logic of membership and influence that informs organisational behaviour, have been observed also in a pluralist system of interest representation like the US's one (Martin 1995).

⁴³ In the attempt to resolve organisational problems to grant themselves political viability, employers' associations can make use also of a few internal arrangements (Schmitter and Streeck 1999), such as certain patterns of voting rights or (in-)formal sanctions. A charismatic leadership may help too.

political contexts the organisation of business interests may be particularly responsive to the logic of influence, which is based on a type of exchange in which the state offers some guarantees of political influence to an organisation in return of more compromised forms of interest representation, characterised by greater associational strategic responsibility and moderate policies (Schmitter and Streeck 1999). As the neo-corporatist literature has elucidated⁴⁴, in these contexts the state can more or less formally support the establishment (and maintenance) of institutional arrangements that help selected associations coping with the paradox of power and the paradox of economic governance, provided that it can reasonably expect that such assistance contributes to public good production and the enhancement of the national macroeconomic performance. Students of neo-corporatism have observed that this phenomenon regards especially extensive welfare states. Since there public authorities take up the responsibility of providing citizens with public goods by means of pervasive and articulated welfare institutions, the governability of the polity significantly depends on the existence of structures able to co-opt employers' (and workers') interest organisations into a system of interest intermediation and policy concertation (Streeck and Schmitter 1985). Hence, in these contexts public authorities may prefer bargaining with general interest associations, rather than with a whole host of special interest associations, and decide to use their principal resources (i.e. the legitimate control over coercion and the authoritative distribution of functions) to favour the institutional development of the former over the latter, through various forms of state sponsorship. In return, state-backed interest organisations are expected to relieve the state from problems like: processing the variety of conflicting economic interests, finding legitimisation of public policy initiatives, and controlling social groups' compliance with public policy goals in times of regulatory load (Traxler 2007b).

In this regard, the scholarship on neo-corporatism maintains that, in some cases, the engagement of business interest organisations in exchanges with the public policy environment can lead them to structure their intermediation activities in a way less responsive to the imperatives of the membership and produce positive spill-overs for the politico-economic processes of modern welfare states. Accordingly, thanks to appropriate institutions, certain employers' organisations can offer the welfare state a vehicle through

⁴⁴ We refer, by way of example, to Lehbruch (1984) and Goldthorpe (1984), as regards models of associations' participation in public policy, but also to collective works like Lehbruch and Schmitter (1982) and Streeck and Schmitter (1985).

which to construct business support for state policy initiatives and secure later employers' compliance to negotiated agreements in the implementation phase.

These theoretical and empirical observations bring about an important clarification. Despite the mentioned problems of business collective action make it difficult for employers to cooperate instead of taking a free-ride on public goods production (par. 2.3, 3.1), a strong state can motivate business interest organisations to renounce to the realisation of short-sighted member self-interests and take up socio-economic governance responsibilities. The acquisition of part of state authority constitutes indeed a unique resource for employers' representatives, as it greatly empowers them to make and enforce on members binding collective decisions. Organisations can choose to acquire governance capacities, and therefore commit to associational strategic responsibility and moderate policies, for various reasons. Among the most significant, the literature has identified: the organisational need to secure the success of associative action and long-run organisational stability; the emergence of strategic responsibility in connection to the awareness of the remarkable influence of (large) organised business groups on macro-economic variables; the vested interest of organisational leaders and professionals in obtaining further resources for their activities from the political environment (Schmitter and Streeck 1999). Member employers, on their part, may accept such developments to reduce their uncertainty over the economic outcomes of public policies. For them, cooperation with a relatively strong welfare state can provide a certain security of receiving a more equitable part of the costs and benefits of public decisions (Streeck and Schmitter 1985).

These considerations illustrate that organisational set-ups and processes increase the number of possible employers' interpretations of welfare state policies and business roles in socio-economic governance. In the following paragraph we then further reflect on the institutional conditions and (inter-)organisational mechanisms that may orient employers' collective action towards more public-regarding behaviours and cooperative roles in the development of contemporary welfare state policies.

4. Institutions, organisational processes and employers' role in social policy development

For what we have discussed so far, it can be rational for self-interested employers to renounce to momentary economic advantages and cooperate with the welfare state for collective goods production only when specific conditions characterise their (system of) interest associations. Such conditions concern, on the one hand, the organisational structures and processes of business interest aggregation; and on the other hand, the structures and processes of policy negotiation between organised business and the political environment. As we have seen, in fact, the organisational design that frames employers' political action delimits the incentives and resources that a certain organisation has to mediate among the variety of members' economic interests, and between these and the set of opportunities and constraints of the public policy environment, in order to provide a reasonable level of business interest satisfaction⁴⁵.

To try to determine the degree to which business interests are intermediated by their political organisation within a certain polity, as a result of specific combinations between the logic of membership and the logic of influence, Schmitter and Streeck (1981, 1999) have put forward the analytical concept of *organisational development*⁴⁶. Basically, high organisational development of a business community corresponds to a high capacity of organisational leaders and managers to govern employers' economic self-interests so to contain non-cooperative behaviours and focus the membership on broad concerns⁴⁷. Here we make use of this concept to try to understand which structural and functional conditions motivate and enable an organisation to cultivate among employers supportive views of public policy, so to cooperate with governments seeking greater legitimacy for their

⁴⁵ Here it is worth recalling the difference between a utilitarian approach and ours. While the former deals with interests' *maximisation*, for us interests can be *satisfied* but not maximised, as both their formulation and realisation is socially mediated (see also par. 2.3).

⁴⁶ With *political organisation* (or simply *organisation*) we mean, in agreement with Schmitter and Streeck's model, both employers' associations and the associational system as a whole, which contribute to form specific national organisational patterns. According to the authors, at high levels of organisational development it is possible to find a pyramid of associations with various levels of representation. This association of associations corresponds in fact to the previously mentioned central peak association.

⁴⁷ The authors have clarified that the concept of organisational development is not an historical one. It does not imply a notion of unidirectionality, but it simply serves to classify the characteristics of an organisation in a specific moment of its existence.

interventions in national economies. To do so, we expand on Schmitter and Streeck's model and add a few changes on the basis of our previous theoretical reflections.

According to Schmitter and Streeck's theorisation, the concept of organisational development involves two dimensions, that the authors name *organised complexity* and *organisational autonomy*.

Organised complexity refers to the properties of an organisation that allow it to internalise as many interests as possible and to process them in a functionally coordinated way, so to positively contribute to socio-economic governance. Associations and associational systems are increasingly complex the more their domain is *inclusive*. Although this property combines with the requirements of political influence, because high representativeness on the political market is an asset (Traxler 1993), earlier we have explained that employers tend to prefer organisations with narrow domains (par. 3.1). The more the organisation of business interests is encompassing, the lower is the governability of its self-interested members, that is, the lower is the possibility to unify the divergent interests of employers operating in different economic segments and impose common goals in spite of the risk of members' defection (Olson, Offe and Wiesenthal, par. 2.1; Traxler, par. 2.2). To reduce the problem to the minimum, the organisation needs developed institutional mechanisms of functional coordination that allow for the accommodation of special interests within single associations as well as between separated associations; and for the integration of such special interests in the more general definition of business interests of the organisation (Schmitter and Streeck 1999). In this respect, Traxler (2007b) makes an important point, based on the observation that large firms usually prevail in national general interest associations (i.e. the most inclusive national sector-unspecific peak associations). As special interests that are incompatible with the interests of dominating large firms hardly manage to be voiced by a national general interest association, they often seek external channels of articulation, i.e. new associations of special interests. Since this considerably limits both inter- and intra-organisational interest coordination, to understand whether complexity is organised it is important to look at the existence of representational rivalries between general interest associations and special interest associations. With this clarification in mind, we suggest that the extent to which the political organisation of business is functionally coordinated, and thus able to

govern the complexity of its representational domain, relates to its level of *cohesion*. In particular, we can reasonably expect that the capacity of the political organisation of business to unify the particularistic interests of its constituency is relatively weak when the organisation is fragmented in a number of associations with (even partially) overlapping representational domains (Traxler 2001). This capacity is further compromised by the existence of competition for members or tasks between such associations, which significantly affects the level of organisational cohesion of business in a polity (Van Waarden 1995).

Against this background, the possibility to rely on the cooperation of business for social policy initiatives should be rather limited when it is organised in fragmented and uncoordinated representational structures, and attempts of some business actors to engage in cooperation are open to lead to sub-optimal outcomes. In fact, in similar contexts single employers' associations tend to concentrate on the particularistic interests of their members, promote performance inhibiting (re-)distributional policies, and externalise the negative consequences of their collective action on third parts. Reversely, more inclusive and cohesive institutional forms of business interest organisation cannot easily take advantage of self-interested (re-)distributional policies and discharge the related costs on some other (less or non-organised) employers' groups, simply because there are less of such groups (Van Waarden 1995). Being forced to consider the relations of interdependence between different business segments, these organisations have to find a common denominator of a wide range of employers' interests. Considering that such denominator more likely tends to the political middle (Van Waarden 1995), more inclusive and cohesive organisations should eventually support moderate policies for the sake of organisational unity, and hence favour more cooperative forms of employers' engagement in social policy-making.

Further, since particularistic organisations of business interests tend to attribute relatively more importance to the logic of membership than to the logic of influence (par. 3.1), they are more likely to let conflicting employers' interests flow through different channels of interest representation. By placing the burden of intra-class interest reconciliation on the government, such type of organisations can overload the policy process and produce sub-optimal policy outputs. Conversely, inclusive associations and cohesive systems of interest representation, by internally reconciling the multiplicity of employers' self-interested demands (rather than leaving this task to governments), may represent for the welfare state

an instrument to coordinate and discipline business actors' behaviour, and deliver politically manageable policy positions.

As far as organisational autonomy is concerned, this refers to the capacity of organisational leaders and professional managers to determine business policy positions rather independently of members' short-term interest perceptions, so to focus the business community on collective ambitions and public concerns. This governance capacity is linked to the possibility of an organisation to collect resources from different actors and environments. In fact, if members are the only source of organisational support, then the organisation must shape its policies on the particularistic, at times short-sighted demands of its constituents (par. 3.1). However, earlier we have seen that, in principle, an organisation can rely also on other resources (par. 3.2). Following Schmitter and Streeck, these resources consist of the sale of services to customers and state sponsorship. Here again it is important to introduce a correction, drawing from Traxler's research (2001, 2007a, 2007b). Accordingly, any organisation of business interests can hardly make its services payable to members as an extra cost with respect to membership. In the case of business, indeed, those services represent one of the main selective incentives to recruit employers and tie them to the organisation. Hence, the only viable source of extra-membership resources is the state.

In particular, the state can replace organisational voluntarism with a legal or routinary obligation, thus enabling associations to extract resources and support from members regardless of their resistance (or inertia). This process is known in neo-corporatist literature as *formalisation*. At high levels of organisational development, formalisation can entail the establishment by law of compulsory membership to an organisation. By increasing the *sanction leverage* of the organisation, the latter allows employers' associations to have legitimate authority towards members even in case of highly inclusive representational domains, which usually weaken the governability of member employers and increase the risk of members' defection from collective goals. In fact, although any organisation have some sanctions vis-à-vis non-conforming members, these become effective means to grant a certain discipline only when members are significantly tied to the organisation, i.e. when the membership is formally or *de facto* compulsory (Van Waarden 1995).

Besides, the state can enhance the autonomy of an organisation from members' immediate economic interests through processes of *institutionalisation* (Schmitter and Streeck 1999).

These processes contain the natural decline in members' voluntary support at high levels of organisational inclusiveness and cohesiveness by means of organisational privileges. Through a series of statutory barriers to associations' central bargaining entitlements, the state can selectively attribute a (more or less formal) monopoly of interest representation, so to recognise a single encompassing association as the legitimate voice of business in national policy-making. Traxler (2001) clarifies that such privileged participation in state regulation is especially important for interest organisations in non-wage policy areas. This because, while in wage policy it is the state that needs the support of private interest associations to ensure macroeconomic stability, in other policy areas, like social policy, it is private interest associations that need state support to influence public decisions that, in principle, fall in the exclusive domain of state competence. Then, *participation in (non-wage) state regulation* represents the main way of extracting power resources outside the organisation, from the public policy environment⁴⁸.

State sponsorship through the mentioned institutional arrangements may eventually contribute to sustain the concentration of resources and power in an effective system of interest intermediation, leaving to organisational representatives a certain margin of manoeuvre in shaping employers' collective political action, instead of simply lobbying in favour of particularistic members' demands⁴⁹. Therefore, we can expect that members-dominated organisations hardly become a vehicle to build reform coalitions and cooperate with governments seeking greater legitimacy for their social policy interventions, whereas the opposite should hold for those associational structures that are more developed in terms of organisational autonomy. Referring to what discussed above, an organisation dependent on employers' voluntary support has scarce motivations to support public goals connected to social policy initiatives, because these are rarely coincident with those of the membership and such organisation cannot easily take the risk of members' defection. Conversely, an organisation that has gained relatively stable access to state regulation in social policy areas can have developed over time the conviction among its members that engaging in cooperative interest accommodation and political exchange with interlocutors

⁴⁸ The primary field in which this participation in (non-wage) state regulation can take place is that of labour market interests (e.g. work-related social policies). Instead, it is hard to find it in the area of product market interests, where employers have more divisive interests (Streeck 1989; Traxler 1993; Traxler *et al.* 2007).

⁴⁹ However, any organisation must constantly balance the logic of membership and the logic of influence, and thus needs to avoid that state sponsorship raises members' suspect of a dependence of the organisation from the state.

may secure a more equitable share of the costs and benefits of social policy decisions. In the latter case, organised business tends to attribute relatively more importance to the logic of influence than to the logic of membership, because the accumulated experiences of cooperation contribute to diminish the cost-opportunity of the renounce to short-term interests in return for longer-term rewards. Besides, since an organisation that enjoys high organisational autonomy thanks to state sponsorship is relatively more subjected to the logic of influence, it can develop over time a vested interest in cooperation at state level and hence become more prone to opportunism. This means that an organisation can put the achievement of a compromise with interlocutors before the imperatives of the logic of membership, when this grants the organisation a number of unique resources to tie and govern its members (e.g. special information, authority, etc.). In this type of context, the threat of state unilateral intervention in the economy can motivate greater employers' cooperation for public goals via their organisation, aimed to avoid a loss of political influence over public decisions. To the contrary, a member-dominated organisation is likely to remain rather indifferent to a similar threat.

To conclude, by integrating Schmitter and Streeck's model with theoretical insights from collective action and neo-corporatist theories, we have built a framework for the analysis of business associative action that singles out what associational factors may favour employers' cooperation with the welfare state. In the next paragraph we summarise its key points and spell out the research hypothesis that we derive from it.

5. Summary: framework of analysis and research hypothesis

Against the variety of theoretical propositions in the literature on business and the welfare state, understanding the instances of employers' active support for some aspects of social protection is an open and exiting task in the agenda of comparative political economy. For this purpose, our theoretical discussion has put forward a politico-organisational approach to the study of employers' role in social policy development. The approach works on the assumption that employers' active support for social policy, as well as any other type of role, is conditioned by the mechanisms of interest intermediation connected to the kind of organisation to which they have resorted in order to cope with the welfare state in which

they are embedded. Accordingly, it is the organisation that transforms social policy goals and strategies, through (inter-) organisational processes of interest aggregation and accomodation shaped by a mix between two conflicting logics of associative action (i.e. the logic of membership and the logic of influence).

Basically, what we want to evaluate with our work is the possibility to understand the variation of employers' roles for social policy development as a function of the institutional conditions and operational logics characterising the organisation of business interests in different political economies. To this end, drawing on theoretical reflections on employers' organisability, the double logic of business interest organisations, and the analytical concept of organisational development, in par. 4 we have built a typological framework for the analysis of business collective political action that associates institutional arrangements (i.e. the domain, structures and relations characterising the formal organisation of business in a polity) with distinct organisational modes of goal and strategy formation and consequent roles of employers in the sphere of welfare state policy.

The framework leads us to make the hypothesis that when business is organised in inclusive and cohesive structures of interest representation, and it is integrated in exchange and interest accommodation relations with other political actors by means of stable access to state regulation (in non-wage policy areas) and a considerable sanction leverage vis-à-vis non-conforming employers, it should be more likely to assume cooperative roles of active support for social policy development in national political processes. In fact, as we have seen in the previous paragraph, the political organisation of business may favour employers' cooperation at high levels of organisational development, that is: (1) when highly inclusive and cohesive associational structures enhance the capacity of the organisation to internalise and govern the relations of interdependence between the various segments of business, so to represent their interests in a unified, moderate and politically manageable form; and (2) when public authorities sustain the sanction leverage of an organisation vis-à-vis non-conforming members and its stable participation in (non-wage) state regulation, enabling organisational leaders to shape associative action quite independently of the short-term economic interest perceptions of the membership, i.e. to focus employers' policy positions on broader concerns and to meet context-related requirements of effective political influence on public decisions.

Before concluding, we believe it important to add a few clarifications. To start with, we see the two sets of institutional conditions and organisational mechanisms listed above as the constituent dimensions of an amended version of Schmitter and Streeck's concept of organisational development. In particular, we suppose that there can be self-reinforcing effects between the two sets. For example, governments are more likely to lend their institutional assistance to organisations that are already rather inclusive and cohesive, because the consequences of their actions for the macro-economy are particularly significant and thus public authorities may see them as a vehicle to coordinate and discipline employers' behaviour (Van Waarden 1995). At the same time, organisations endowed with privileged access to central policy-making and with credible sanctions against employers' unfair behaviours and free-ridership should more easily overcome the problems of business interest generalizability and governability (Traxler 1993, 1995), and thus afford to be inclusive and cohesive.

Furthermore, we would like to stress that we have formulated our research hypothesis in careful, loose terms, because in our theoretical construction we have considered employers' collective goals and action as the result of a balance between the logic of membership and the logic of influence, which is comparable to a variable-sum game rather than to a zero-sum game. This implies that the policies of an organisation are always somewhat confronted with the immediate material interests of member employers with respect to alternative social policy scenarios; interests that cannot be anyhow determined through theoretical speculation, for the reasons illustrated at the beginning of this chapter.

Finally, we briefly recall the methodological note anticipated under par. 1. Our research goal does not entail testing the generalizability of our hypothesis, but rather assessing its explicative potential, and eventually re-formulate it in the light of empirical observation. As we will see in the next chapter, our research hypothesis guides the comparative analysis, in order to generate more precise propositions with the help of case studies.

IV. Methodology

1. Theory-building research objective

The rare and often contradictory academic studies available, as well as common wisdom, inevitably pose a puzzle about the role that employers may come to carry out with respect to social policy, especially when this role entails active support for the development of social protection schemes. Although it has long been assumed that business is the natural antagonist of social policy, relatively recent works in the field of comparative political economy have attracted the attention on instances of employers' cooperation in the formulation (and later implementation) of new social welfare programmes and paradigms (Estévez-Abe et al. 2001; Hall and Soskice 2001; Mares 1999, 2001, 2003; Martin and Swank 2004; Swank and Martin 2001; Swenson 1991, 2002). However, theoretical explanations of such cooperation are quite under-developed. In order to improve our understanding of the conditions and logics that render employers' active support for social policy a more likely outcome of business collective political action than non-cooperative types of role, we have built a typological framework, drawing on theories of collective action and neo-corporatist literature.

Our ultimate goal is to shed light on the possibility to interpret the type of employers' engagement with the welfare state in function of the institutional properties, and related governance capacities, of their political organisation in a given polity. In our view, the type of organisation should be regarded as the key determinant of employers' role for social policy development, because it allows for distinct organisational interpretations of business interests with respect to alternative social policy scenarios by means of opportune institutions. For this, our framework for the analysis of business collective action in social policy focuses on the structural and functional conditions that make for various levels of organisational interest intermediation and accommodation, which in turn shape employers' definitions of collective social policy goals and strategies within different political economies. By doing so, on the one hand the framework identifies the theoretically relevant configurations of institutional variables that form different types of political

organisation of business interests (Ch. 3, par. 4, 5). On the other hand, it illuminates how the organisational processes of interest intermediation and accommodation can lead to different business roles for social policy development in different institutional contexts, as a result of diverse combinations between the conflicting organisational logics of membership and of influence⁵⁰.

This theoretical framework is necessarily provisional, due to the exploratory nature of our work. It needs to be evaluated and adjusted through feedbacks from case studies, whose explanation will be couched in it. At this early stage of theory development, heuristic case studies⁵¹ can greatly help specify variables and hypotheses – and thus refine our theory about business collective action dynamics in social policy – not only by determining the explanatory power of our framework, but also by means of analytical theory-driven induction.

Some of the advantages of case-studies for our research purposes are that they allow to: check whether and how certain variables mattered for a specific outcome; ensure high conceptual validity by acknowledging the difficulty of finding equivalents in the social world and hence carrying out contextualised comparisons; obtain an in-depth knowledge of how a causal mechanism operates in a small number of cases; discover intervening variables or threshold effects; take into account the possibility of equifinality, that is, the existence of different explanatory paths (or sequences) to the same outcome.

Nevertheless, these advantages bring about also some limitations concerning the kind of inference that can be made out of case-studies. Indeed, since their contribution to theory development is based on detailed observation of a case subset of the phenomenon under investigation, they serve to formulate contingent generalisations, rather than general claims about causal mechanisms. In this regard, our theory-building ambitions are bounded to the achievement of a middle-range theory. Basically, the scope of a middle-range theory is limited to a number of contexts (or aspects) of a phenomenon, as opposed to universal theories that predict the applicability of a relationship between variables everywhere (Della Porta and Keating 2008). This means that through our findings we aim to develop concepts

⁵⁰ In particular, our theoretical framework seeks to highlight structure-to-agent mechanisms. Although we have modelled it (and we will assess it) at the macro-level, we have also tried to grant its consistency with the actions of individuals (Ch. 3, par. 2.4).

⁵¹ Case-studies consist in detailed empirical analyses of subclasses of phenomena (i.e. a single case or a small number of cases), which not only assess and enrich theoretical explanations for them, but also provide information for a larger class of phenomena.

and generalisations at a level that stays in between what holds for all societies and what holds only in a specific society and a certain point in time (Benedix 1963).

2. Research strategy

2.1 Research design

Typological theorising has naturally required the comparison between different cases. In order to highlight the influence of the type of political organisation on employers' collective goals and actions in the realm of social policy, we have selected two European countries, characterised by several context similarities, and almost concurrently engaged in the reform of the same social protection schemes; but also remarkably different with respect to the level of business organisational development (see *infra*). In this way, we have tried to reduce the variance of potential confounding factors, so as to increase the comparability of cases (Lijphart 1971) and be able to rule such factors out as a source of variation in the outcomes, according to the strategy of most similar systems design (Przeworski and Teune 1970; Lijphart 1975). As we will better clarify in the next sections, through the reconstruction and the analysis of the decisional processes that have led employers in the two countries to hold distinct positions and roles towards similar instances of social policy development⁵², we seek to highlight how associational factors have played out in the two contexts and mattered for the outcomes.

2.2 Case selection

Our work has compared the role of business for social policy development in two countries that possess a corporatist record in one way or another: Austria and Italy.

This choice has been functional to our research objective and strategy in many respects.

To start with, the political organisation of business interests in Austria and Italy is similarly characterised by the presence of one national sector-unspecific peak association – the

⁵² For the methods and data sources employed for the reconstruction and analysis of cases, see also *infra*.

Austrian *WKÖ* and the Italian *Confindustria* – that formally or informally represents the principal voice of business vis-à-vis unions and the government in the respective political economy, in spite of the existence of other minor peak employers' associations. Both the *WKÖ* and the *Confindustria* face the common challenge of representing particularly heterogeneous business interests, as their representational domains are cross-sectoral and include big as well as small and medium size enterprises (SMEs). They are also likewise meant to coordinate the activities of lower-level associations and peak associations of specific interests, so to articulate and aggregate the vast variety of business interests into collective political demands and actions. As more, these two major peak employers' associations are confronted with relatively strong labour unions in comparative perspective, in a time of general decline in unionism.

Besides, many are the context similarities that entail the socio-economic structure in which employers operate⁵³. These somewhat reflect the micro- and meso- level characteristics of business in the two countries, and so they allow to assume that the cross-national variation of the range of possible business interests towards a certain social policy is reduced to the minimum. First of all, the Austrian and Italian economies are commonly characterised by: a highly comparable sector composition, with a developed tertiary (especially as for tourism, trade-activities and financial services); relatively extensive manufacturing and construction sectors (reflecting the slow pace of de-industrialisation in the countries, in comparison to other advanced European economies); the prevalence of labour-intensive sectors over research-intensive industries; a very similar history of public ownership (especially for big enterprises) and late privatisation processes, pushed by the need to contain the public deficit; a significant size of the public sector and a pervasive role of governments in the regulation of the economy; a private (non-financial) business dominated by SMEs.

Not least, employers in both countries have to cope with an insurance-based welfare system that provides relatively generous social benefits to workers, according to a strict occupational rationale. Such kind of welfare system, as opposed to the liberal welfare regime of Anglo-saxon countries or the social-democratic regime of the Nordic countries (Esping-Andersen 1990), poses distinct challenges to business activities and thus raises specific employers' interests in relation to social protection reforms. For example, Austrian

⁵³ For an overview, see also Ch. 5.

and Italian employers equally face the burden of a high tax-wedge⁵⁴, due to the fact that income maintenance schemes are mainly financed out of social contributions paid by both the worker and the employer. In these contexts, the weight of social contributions on labour costs impacts differently on employers' sovereignty of investment decisions depending on the economic category and the employment structure. In fact, while welfare provisions are typically tailored on permanent and full-time (subordinated) employment, non-standard forms of employment (e.g. short-term work, part-time work, telework, etc.) are usually less covered by social protection, and thus relatively cheaper for employers in terms of social security payments (Clegg 2007, Palier and Martin 2007). This, in turn, can easily lead to the formation of divisive interests over alternative social policy scenarios within the business community, following from categorical differences in the kind of work organisation and production needs of companies.

2.3 Selection of policy cases

To make the study more manageable, we have focused on a specific set of welfare policies, which have undergone profound changes between the 1990s and the 2000s in Austria and Italy⁵⁵. Initially we wanted to concentrate on reform episodes involving the regulation of the severance pay. Nevertheless, we have soon discovered that this was not possible without at least mentioning the development of supplementary pensions, because the reform processes of the two policies came to twine together in both countries, although to different extents. This interconnection was mainly due to public attempts to change the economic rationale of severance payments by making them available for financing the still underdeveloped Austrian and Italian supplementary pension funds. The nature of such reform efforts has revealed particularly useful to highlight distributive conflicts among business segments, as well as between business and its institutional interlocutors (i.e. unions and the government). Notably, the severance pay is an important labour market institution, traditionally falling under the purview of the main actors of Austrian and Italian

⁵⁴ The tax-wedge is the average share of social contributions and taxes calculated as a proportion of total labour costs.

⁵⁵ The fact that policy changes have happened almost in the same period also contributes to simplify the comparison, because in this way we can reduce the possibility that actors' positions towards the reforms have been significantly influenced by different historical junctures.

industrial relations, that requires employers to create a monetary reserve for which an employee is eligible upon termination of the employment contract. For employers, it represents both an instrument to tie workers to the company and a cost to be paid in a one-off pay-out sum of money in case of dismissal⁵⁶ of (part of) the personnel. As a cost, the severance pay has also frequently represented for employers an impediment to labour market flexibility, especially for companies that needed to lay-off employees but had not enough liquidity for severance payments. For unions the severance pay is a form of workers' income maintenance during unemployment spells; and it is a means to balance the low contractual power of workers vis-à-vis their employer⁵⁷. For governments of different colours, since the 1990s, the severance pay represents a financial instrument to contain public pension expenditures via the development of private pension pillars. Seen in this way, the severance pay does epitomize the key socio-economic conflicts around modern reforms of post-industrial labour market and social welfare institutions, being at the crossroads among the interests of employers for cheaper flexibility, unions' concerns for workers' security and governmental needs of public budget consolidation.

2.4 Types of employers' organisation

Similarities are useful not only to show up the differences in the national mobilisation of business for social policy, but also to narrow down the number of factors whose variation may account for such differences. As regards the latter task, the significantly high variation in the level of organisational development of business representation structures in Austria and Italy helps ascertaining whether the foreseen mechanisms of employers' collective action for social policy have actually operated in the cases studied. As a matter of fact, the political organisation of business in the two countries varies very much in terms of the two sets of institutional conditions put forward in our framework. In Austria employers are much more inclusively and cohesively organised than in Italy, and they traditionally enjoy various forms of state support for their organisational activities in the area of social policy and labour market regulation. While we will further describe institutional differences in

⁵⁶ In Italy also in case of voluntary resignation.

⁵⁷ Not least, severance payments have a symbolic value for workers, because they represent a part of the company's economic fortune, to which the worker has contributed over time.

Chapter 5, here we briefly try to show how the two countries distinguish themselves in the values of the variables listed in the previous chapter (Ch. 3, par. 4, 5). To do so, we rely on common secondary literature indicators, to obtain preliminary scores for a number of European countries, so to place Austrian and Italian employers' organisations in comparative perspective. Some data are admittedly not very recent, due to the difficulty of finding fresh and comparable measurements for a large subset of political economies. However, institutional conditions tend to change slowly over time, and hence it is hard to expect that scores would be dramatically different if measured a few years later.

The first institutional dimension considered in our framework is the level of *representational inclusiveness*. Following the literature, this is contingent upon the number of employers that are meant to be organised and the number of employers that joined the organisation. Since in any country there is always one encompassing association on behalf of the whole business sector (Traxler *et al.* 2001), we can measure representational inclusiveness on the basis of the density ratio of such national principal peak employers' association. The latter is commonly calculated as the ratio of actual to potential members⁵⁸ (Traxler *et al.* 2001). As we can see from Table 1, in 1996 representational inclusiveness was at the highest level in Austria, where the WKÖ registered 100% density, while in Italy it was a little below the average. According to more recent data from the European Commission and Visser (2006), the scores remain about the same. The only variation is that the density ratio of Confindustria scores 51%, which anyhow results below the EU-25 average (57%).

As regards the *cohesion* of the system of business representation, this is usually captured by the number of national cross-sectoral peak employers' associations in the system and the existence of rivalries among them. For the former, we use the data collected by Beherens and Traxler (2004)⁵⁹; for the latter, we follow the information on the existence of inter-associational competition provided by the same authors. Table 1 shows that the Austrian system is far more cohesive than the Italian one. On the one hand, the number of national peaks is very low in Austria, while Italy definitely displays the highest level of

⁵⁸ As mentioned in Ch. 3, in the literature the density ratio is commonly calculated as the proportion of employees working in the principal peak association's member firms (instead of as the number of firms covered by the association) to allow comparisons with union density. Here we use the data by Traxler *et al.* (2001) for the year 1996, as they are the most complete.

⁵⁹ They count only employer associations whose domain covers more than one complete two-digit ISIC (International Standard Industrial Classification) area. See Beherens and Traxler (2004).

inter-associational fragmentation in comparative perspective, with its 16 cross-sectoral peak employers' associations. Further, the Italian system is also characterised by inter-associational competition, as a consequence of the many associations with overlapping domains and of their inability to agree on mutually exclusive representation (especially as far as SMEs are concerned). Conversely, the WKÖ maintains a monopoly of representation vis-à-vis the government for the entire Austrian business sector, so that other associations normally coordinate rather than compete with it.

Table 1 - Selected indicators of organisational development

Country	Density of the principal peak employers' association (1)	Number of cross-sectoral peak employers' associations (2)	Associational employer participation in (non-wage) state regulation (3)
<i>Austria</i>	100	2	0,85
Belgium	72	1	0,85
Denmark	37	3	0,85
Finland	43	4	0,21
France	74	4	0,40
Germany	72	1	0,01
Ireland	39	4	0,10
<i>Italy</i>	40	16	0,30
Netherlands	79	3	0,58
Norway	31	5	0,64
Portugal	34	7	-
Spain	72	2	-
Sweden	56	5	-0,12
United Kingdom	54	1	-0,15

S: (1) Traxler *et al.* (2001); (2) Beherens and Traxler (2004); (3) Martin and Swank (2004).

Concerning the *sanction leverage* vis-à-vis members, we ideally add a bonus to the principal peak employers' association if membership in it is formally or *de facto* compulsory. In fact, sanctions to limit non-conforming members' behaviours are effective when membership in the organisation is indispensable for employers to carry out their

activities in a country (Van Waarden 1995). Since membership in the WKÖ is compulsory by law⁶⁰, and membership in the Confindustria is neither formally nor *de facto* compulsory for Italian employers, we attribute the bonus only to the former.

Associational employer *participation in (non-wage) state regulation* has been measured by Traxler *et al.* (2001) through an index of generalised and specialised activities (for non-wage issues) carried out by the principal employers' peak associations between the 1970s and the 1990s. Its standard scores have been calculated in the 2004 work of Martin and Swank, and we report them in Table 1. Austrian employers should enjoy relatively stable state support to influence public decisions, since the standard score well above the average suggests that employers' participation in the Austrian policy process is substantially institutionalised. Instead, in Italy the level of employers' participation in (non-wage) state regulation is closer to the average. This indicates that employers' integration in the Italian policy process is not fully institutionalised, but rather characterised by intermediate traits between corporatism and pluralism.

For what discussed, the two sets of organisational conditions identified in our framework assume opposite values in our selected countries. Although this does not allow us to assess what happens at more intermediate values, our selection of cases with "high-high" (Austria) and "low-low" (Italy) values has the advantage of maximising the potential difference in the observable outcomes. Concerning the latter, we make some specifications in the next section.

2.5 Outcome differentiation

As far as the measurement of outcomes is concerned, we identify the role of business in the context of the selected reforms through an historical reconstruction of the positions and actions undertaken by the key political business representatives towards specific policy options. Albeit the focus is on the major national peak employers' association, the WKÖ and the Confindustria, we also consider the behaviour of other relevant peak employers' associations that sought to influence reform decisions by either coordinating their collective political action with the major association or not. In this way we try to find

⁶⁰ This is also the reason why the density ratio of the WKÖ reports the highest score in Europe.

evidence of possible intra-class tensions, and their consequences for the capacity of the business community to formulate collective goals and effective political strategies.

As partly anticipated in the previous chapter (Ch. 3, par. 1), we believe it fruitful to characterise the role of business for the establishment of new social policy legislation in dichotomous terms. This means to distinguish between instances of cooperation and instances of non-cooperation. Cooperation, understood as active support for social policy development, implies not only business acceptance of a specific policy, but also the mobilisation of the necessary resources for its establishment. For example, the representatives of business interests decide to participate in negotiations with unions and/or the government, to moderate their demands concerning the characteristics of the new policy, and actively contribute to the formulation of the key points of the policy design (that will eventually be submitted to the national Parliament in a new piece of legislation). Non-cooperation, instead, is any type of business role that involves non-acceptance and/or non-mobilisation of resources. In this case, the mobilisation of resources is essentially finalised to impede a policy output, and thus it can involve, for example: the organisation of demonstrations (i.e. representatives call upon the members to demonstrate against a decision); pressure on the executive; or blackmailing political interlocutors with the threat of non-compliance with the commitments previously taken (also in other policy fields). Having in mind the typology constructed at the beginning of our theoretical discussion (Ch. 3, par. 1), we can try to further specify whether business non-cooperation for the development of a given policy takes the form of antagonism (active opposition), dissent or abstention (passive opposition), or acquiescence (passive support). In particular, to distinguish whether the observed business support is active (and thus represents an instance of cooperation), or passive, we need to consider if business was committed from the beginning to a specific policy or if it reluctantly accepted it under the pressure of other political actors, who somehow succeeded in imposing their decision.

2.6 Scope of the study

On the whole, our selection of cases seems to meet fairly well the requirements of most-similar systems designs, and so to help highlighting the importance of the national business political organisation in shaping employers' role in social policy development.

Nevertheless, the usual disclaimer is in order. The selected historical cases cannot be in any way pure exemplars of the ideal-types we have constructed in our theoretical framework, although we believe that they can represent with an acceptable degree of approximation two quite extreme opposite types of organisation of business interests, endowed with considerably different levels of governance capacity. As more, in the social world it is impossible to find two cases that allow for the parameterisation of all the variables left out of a theoretical framework. Since we are aware of these methodological problems, to reduce the risk of mistaken inferences we make use of process-tracing as a supplement to the inevitably imperfect match of cases. As we will see in the next paragraph, process-tracing strengthens the comparison by pointing up the pathways that link cases to their outcomes, and so it can greatly contribute to building a middle-range theory.

3. Methods of causal interpretation

To understand whether and how the politico-organisational context may have shaped different roles of the business community for the development of severance pay and supplementary pension schemes in Austria and Italy, we distinguish different reform episodes that have contributed to the current policy designs throughout the period 1990s-2000s, and we analyse them by combining the congruence method with process-tracing⁶¹.

Following the congruence method, we ascertain the characteristics of the political organisation of business interests in correspondence to the reforms, and we check the consistency of the roles actually assumed by business in relation to specific policy outputs with those anticipated by our typological framework. If such consistency is found, then we entertain the possibility that a causal relationship between the governance capacity of the politico-economic organisation of business and the type of employers' engagement with social policy development exists.

To strengthen this basis for inference we make use of process-tracing techniques, which allow evaluating whether the variation in the outcome of employers' collective action was actually due to the different level of organisational development (and the related logics of interest representation) of the Austrian and Italian business communities. In fact, through

⁶¹ For a recent and extensive discussion of the methods of congruence and process-tracing, see George and Bennett 2005.

process-tracing we generate and analyse data on the mechanisms that may have led employers to opt for a specific role with respect to given policy outputs. By tracing the positions and actions of business in the various reform episodes, we illuminate what motivated employers' collective goals and strategies, as well as the possible variation of the latter during the policy-making process. We try to show how political demands and actions promoted by business representatives in the two countries have kept close to the immediate economic interests of member employers (logic of membership first); or, on the contrary, they have resulted from the capacity of organisation leaders and professionals to mediate between the demands of members and the requests coming from the political context, so as to reach with other political actors a common decision on social policy issues, although this may imply to renounce satisfying part of their members' interests (logic of influence first). To this end, the emphasis that process-tracing places on timing and sequencing allow to understand whether the behaviour of business representatives is relatively more responsive to a strict economic logic and the need to represent members' interests in the most authentic way, or more incline to represent members' interests in a more partial and general form to secure their political influence on public decisions. In particular, the variation of actions and positions in the course of the same policy-making process may be taken as an evidence of the intervention of mechanisms of goal and strategy formation that follow a political logic of adjustment to contingent political conditions and interlocutors' behaviour. In this case, it is interesting to use process-tracing to analyse events backward through time, to identify the antecedents of change in business behaviour that have shaped a final role, acting as catalysts or suppressors of initial positions and actions.

In this way, we can identify the causal mechanisms and pathways that have connected a certain type of organisational configuration with a certain kind of employers' interpretation of and mobilisation for social policy problems. The mechanisms and pathways found may match those we have hypothesised (Ch. 3, par. 5), and so process-tracing can increase our confidence in the theory by eliminating rival explanations. Alternatively, process-tracing can find that our hypothesised relationship between the role of business for social policy development and the governance capacity of the political organisation of employers is spurious. In this case, process-tracing can show that other variables and processes, suggested by the existing literature or inductively identified, may account for the observed outcomes. Taking into consideration alternative pathways proposed by classic political

science literature, we check for the possibility that the kind of engagement of employers with welfare reforms varies with: the colour of the government on power, because the ability of the organisation of business to participate and influence decisions is enhanced by the ideological convergence with centre-right executives and deeply constrained by pro-labour centre-left cabinets; the occasional convergence of economic interests of segments of business and labour, that manage to build *ad hoc* cross-class coalitions and decisively influence government decisions; the involvement of policy legacies, which can shape business preferences over alternative policy outputs against the background of past actions and policy decisions.

4. Data sources

To reconstruct the policy-making process of the reform episodes that led to the current configuration of severance pay and supplementary pensions in Austria and Italy, we use several data sources. For tracing the policy positions and actions of the main actors (i.e. leaders and professionals of employers' associations, but also unions and government representatives) we rely on both primary and secondary materials. Among the primary sources, there are documents of the main social partners (e.g. position papers, political programmes, etc.), parliamentary documents (e.g. acts, drafts, proposals, petitions, press releases on parliamentary activities and status of legislation, etc.), documents of the government (e.g. policy proposals, decisions, political programme of the executives, etc.), and public declarations of leaders. As for secondary materials, we have also based part of our chronological narrative on accessible academic literature, reports made by national and international observers, and press articles. Moreover, to enrich our account of actors' views, motives and beliefs, we have also carried out semi-structured, face-to-face⁶² interviews with representatives of the social partners and the government. Interviews lasted on average 45 minutes. The questions served to collect actors' perceptions of facts and motivations of choices, and to gather first-hand information on specific issues that were omitted or only partially discussed by other data sources. A list of interviews can be found at the end of the work. We do not cite name and surname of interviewees; rather, we

⁶² Only one interview was carried out via e-mail, due to technical problems to reach the interviewee.

indicate the professional position covered, which has made them privileged observers (or even principal actors) with respect to the processes in analysis.

We also integrate the data generated and analysed through process-tracing with background information on the policy status quo and the reform rationale (e.g. information on the policy legacies, the main policy aspects at stake in each reform episode, the implications of alternative policy options, etc.), so to improve our depiction of the institutional and political context of reforms. For this, the main data sources are academic works, national and international experts' reports, press articles, national legislation. Instead, we make use only once of expert interviews. In particular, to fill some gaps of information left from secondary literature, we have interviewed an expert of Austrian labour market and social policies; also in this case, the interview was semi-structured, face-to-face and relatively long (slightly more than 45 minutes).

V. The Economic and Political Organisation of Business in Austria and Italy

A natural point of departure for our comparative analysis is to give some background information to embed business actors in the specific type of capitalist democracy they belong to. At this purpose, in this chapter we provide an overview of the Austrian and Italian politico-economic organisation of employers that includes: a sketch of salient traits of the respective economic structures, which reflect the micro- and meso- level features of business in the two countries; a description of the key actors of the national system of industrial relations and of their integration into structures of bargained interest accommodation and policy concertation; and a characterisation of the national cross-sectoral peak employers' associations, with a special focus on the WKÖ and the Confindustria. The chapter concludes with a brief summary, where we condense the main differences and similarities of the political and socio-economic contexts in which Austrian and Italian employers act.

1. The historical and politico-economic context of Austrian employers

1.1 Austrian economy at a glance

Between the 1960s and the 1970s Austria experienced a fast economic growth that pushed the national GDP per capita up to the highest levels in Europe; levels at which the country stands even today⁶³. Also the Austrian labour market has long outperformed most other European labour markets. For example, according to Eurostat (Labour Force Survey), already in 1997 the number of persons in employment was 3,647 out of a population aged 15-64 of 5,324 people; ten years later the employment rate was still high in comparative perspective (71.4% against the 66.8% of the EU-15 average). Contrary to private sector

⁶³ By way of example, the Austrian GDP per capita (calculated in PPS by Eurostat, National Accounts Statistics) was 132 in 1997 (124 in 2007), against 115 of the EU-15 (111 in 2007).

employment, employment in general government has little contributed to these achievements, remaining below the average of OECD countries over the last twenty years⁶⁴.

Among employees, Eurostat records show that the percentage of temporarily employed in Austria has remained well below the European average, ranging from the 7% to the 9% between the 1990s and the 2000s. Conversely, the incidence of part-time workers has reached comparatively high levels in recent years (22.6% against the 20.9% of the EU-15 in 2007)⁶⁵. As for the self-employed, they amounted to the 14.2% of total employment in 1990, and they slightly decreased over 15 years to the level of 13.3% (OECD Factbook 2011).

The hit of the Fordist production crisis came later than in most other advanced economies and caused a loss of jobs especially in the sectors of mining, manufacturing and energy supply. The fall of the iron curtain and the European Union enlargement to Eastern European countries enhanced the reduction of manufacturing jobs, mainly as a consequence of national production relocation in countries with lower wage costs. Nonetheless, de-industrialisation in Austria was much slower than in the majority of advanced European economies. As Table 2 in the next page shows, manufacturing accounted for about the 30% of the gross value added till recently, almost five percentage points above the EU-15 average.

Almost one-third of the national added value in 2006 was made of automotive, electric industry and mechanical engineering. The petrol, gas and wood industries are market leaders, while research-intensive industries remain scarce.

The transition towards a service-based economy was characterised by the expansion of wholesale, retail trade, hotels and restaurants, which have become leading sectors in terms of employment. Banking and low wage sectors with high employment fluctuations (e.g. constructions, tourism) constitute an important part of the economic structure too.

Public ownership, which used to make for a huge part of the Austrian economy, has been dramatically downsized through several privatisation waves that started from the 1980s and accelerated after Austria joined the EU, particularly because the sell-off of state-owned enterprises represented a means to reduce the public deficit. Before then, public ownership

⁶⁴ In particular, the OECD reports that employment in general government has contributed to total employment for the 10-11% between 1995 and 2005 (OECD 2009a).

⁶⁵ Due to the traditional overrepresentation of female workers among part-timers, in German speaking countries it has become common to define part-time as *Frauensache* (women's business).

involved a large number of corporations processing raw materials like steel or chemicals, the electric power industry, banks and airlines. Moreover, the state indirectly owned many other corporations through its banks' shares, especially in the vehicle and construction industry. However, what rendered Austria peculiar with respect to the other western countries was that it maintained extensive public ownership in the manufacturing sector up to the 1990s (Aiginger 1999).

Table 2 - Relative weight of sectors in the Austrian economy

% GROSS VALUE ADDED	Agriculture, hunting and fishing	Industry, including energy	Construction	Trade, transport and communication	Business activities and financial services	Other services
1998	2.2	22.9	8.0	24.7	20.7	21.6
EU-15	2.4	22.9	5.5	21.4	25.5	22.3
2008	1.7	23.2	7.1	23.7	23.8	20.6
EU-15	1.6	19.3	6.3	21.8	29.0	23.0

S: Eurostat, National Accounts Statistics.

The hegemony of state ownership in large enterprises is possibly the main reason why Austrian private (non-financial) business is dominated by SMEs, where almost three quarters of employment is concentrated. Among these, in 2008, micro-enterprises⁶⁶ constituted the 87.2% of the Austrian non-financial business economy and small-sized enterprises the 10.8%, while large companies represented only the 0.4% (Eurostat, Structural Business Statistics).

⁶⁶ According to Eurostat classification, micro-enterprises are those which employ less than 10 employees and meet either the turnover or the balance sheet ceiling of € 2 millions. Small-sized enterprises are those with 10 to 49 persons employed (and they are under either the turnover ceiling of € 10 millions or the balance sheet ceiling of € 10 millions); medium-sized are companies with 50-249 employees (and they are under either the turnover ceiling of € 50 millions or the balance sheet ceiling of € 43 millions). Thus, large companies are considered those with at least 250 employees.

1.2 Social partnership and public policy-making in Austria

The Austrian capitalist democracy is known as one of the most consensual politico-economic systems in the West; one in which corporatist structures are tremendously developed. The core corporatist institution is a specific form of social partnership (*Sozialpartnerschaft*), which is made up of a number of political settings and formal as well as informal practices⁶⁷ established shortly after the Second World War to minimise social conflict in the country. Although the Austrian social partnership has encountered a phase of decline since the 1990s, it has proved to be pretty much resilient and today it is still well in place (Fink and Tálos 2004; Obinger 2001; Obinger and Tálos 2006, 2009; Interview 2, AK, WKÖ). The *Sozialpartnerschaft* has to be seen as an institutionalised system of bargained interest accommodation and public policy concertation between the Austrian government and labour and business interest representatives, which has historically involved not only wage-setting or income policies, but also important decisions on economic and social policy reforms. In particular, it is possible to distinguish two different social partnership arenas: the bipartite one, where the main actors are workers' and employers' interest associations; and the tripartite one, where the social partners and the government are engaged in public policy concertation. Bipartite negotiations take place when the government delegates the drafting of key aspects of a regulation to the representatives of business and labour. As we will also see in Chapter 6, the most visible results of these negotiations are joint position papers and policy recommendations for the government, which then normally enact the proposals of the social partners. Tripartite social dialogue, instead, mainly involves governmental consultation of the social partners on aspects of the envisaged legislation that may affect their interests. Moreover, most of the time the social partners are involved in policy-making prior to the consultation phase (*Begutachtungsverfahren*), through informal talks (*Vorbegutachtungsverfahren*) during which ideas for the draft law are presented (Biegelbauer and Mayer 2007).

⁶⁷ Informal rules typically characterise bipartite and tripartite relations among cross-sectoral representative interest associations at the national level. More structured relations can be found in specific areas, such as labour market regulation, where the social partners sit together and act according to formal rules. This is the case in many administrative and advisory boards, such as those of the Austrian employment service (*Arbeitsmarktservice*, AMS).

There is no written law explicitly mentioning which private interest associations are part of the social partnership system in Austria⁶⁸. Mainly, social partnership relies on informal mutual recognition among the traditional participants of a small *club* of political actors. Within this club, one can find: the Federal Chamber of Agriculture (*Landwirtschaftskammern Österreich*, PKLWK); the Federal Chamber of Labour (*Bundesarbeiterkammer*, AK); the Federal Chamber of Business (*Wirtschaftskammer*, WKÖ); the Austrian Unions' Federation (*Österreichischer Gewerkschaftsbund*, ÖGB), which is the only union confederation in the country; and the Federation of Austrian Industry (*Industrielle Vereinigung*, IV). However, the PKLWK and the IV can be regarded as secondary actors. As a matter of fact, the PKLWK has shifted its representation activities more on the EU level, while the IV usually promotes member interests and political demands vis-à-vis the government and/or organised labour through the WKÖ⁶⁹. Seemingly, all the other unmentioned associations usually refrain from unilaterally lobbying the government, and typically try to advance their demands within the relevant social partner organisation.

Furthermore, we believe it important to stress the main peculiarity which distinguishes the Chambers from the other interest associations in the Austrian system of interest representation⁷⁰. While interest associations in Austria are normally regulated by private law (i.e. by the *Vereingeseztz*) and follow the principle of freedom of association, the Chambers are public law bodies endowed with mandatory membership. This means that all individual and legal entities deemed to fall under the domain laid down in a Chamber's

⁶⁸ Even the recent amendment to article 120 of the Austrian Constitution speaks about social partners without listing them explicitly. This amendment was strongly asked by social partners in 2007 because they wanted social partnership to be formalised and thus respected by any national executive, regardless of the colour of the government. The request was a consequence of the progressive marginalisation of private interest associations from the policy-making process (especially the unions) occurring under the two governments held by the FPÖ-ÖVP coalition (see also Ch. 6).

⁶⁹ Also the AK and the ÖGB work in close cooperation. In fact, besides its other activities (e.g. advisory services and legal protection for the members, applied research, training of works councils and union officials, etc.) the AK serves as a sort of think-tank for the ÖGB, while the latter has the monopoly of workers' representation in collective bargaining.

⁷⁰ The Chambers system in itself is not unique of Austria. Rather, what is unique is the powerful role that the Chambers have in collective bargaining and public policy making; a role that in all other countries endowed with a Chambers system is given to voluntary interest associations. For example, a similar Chambers system exists also in Italy, where it was introduced in the 18th century, under the Austrian Asburgic Empire domination. However, in Italy the Chambers carry out administrative tasks (e.g. licensing, etc.) and not political representation activities.

statute become members by law⁷¹. Besides, the statute assigns to the Chambers the task of representation at the federal and EU levels; they must participate in state regulatory functions while remaining independent from the government, according to a form of capitalism based on consensual economic governance and self-administration of economic groups (Traxler 2007c).

This “*second political decision-making system of highly organised economic associations*” (Pelinka 1998:87) is complementary to the party system and at the same time highly interconnected with it: there are well-known ties between political parties and interest groups, typically between the Social Democrats of the SPÖ and workers’ organisations (the AK and the ÖGB) on the one hand; and between the Conservatives of the ÖVP and organised business (the WKÖ and the IV) on the other hand (Interview 2)⁷². A clear evidence of this is that it is common for many representatives of socio-economic interest groups to hold office in a political party at the same time⁷³. Such practice of multiple office-holding affects also representatives of associations and chambers with overlapping representation domain.

1.3 The organisation of business interests in Austria

The system of employers’ representation in Austria consists of many associations, the most important of which are the two big country-wide cross-sector associations, namely the WKÖ and the IV. As these two are traditionally the principal associations of business

⁷¹ The mandatory nature of the membership in the Chambers has been frequently debated in the past. The main accusation was that it represents an undemocratic mechanism of member recruitment. However, in the polls conducted in 1995-1996, Austrian employees confirmed that they were interested in having the Chambers as their legal representatives (Pelinka 1998). More recently, the compulsory membership provision was opposed under the conservative-populist coalition that entered in government in 2000. For this, the Chambers have asked the subsequent social democrat-conservative coalition to defend this prerogative through Constitutional law, but without success.

⁷² Since the end of the 1940s, the SPÖ and the ÖVP have dominated the Austrian political landscape. Other political parties that are known to the large public and have managed to collect a considerable share of votes during the last decades are: the Freedom Party of Austria (FPÖ); the Greens; the Alliance for the Future of Austria (BZÖ); and the Liberal Forum.

⁷³ For example, the SPÖ’s MP Friedrich Verzetnitsch has been President of the ÖGB for over ten years. Seemingly, the President of the WKÖ, Christoph Leitl, is also a high-level representative of the ÖVP.

political representation in the country, here we want to present their organisational features in more detail, expanding the short outline of the methodological chapter. Before this, we must at least mention five other employers' associations that are relatively big and active in the Austrian landscape, but contrary to the WKÖ and the IV concentrate on a sectoral domain of representation. Two of them represent the world of cooperatives: the Austrian Association of Cooperatives (*Österreichischer Genossenschaftsverband, ÖGV*), which has a main focus on the banking sector, but operates also in other sectors, such as commerce, transport or manufacturing; and the Austrian Association of the Raiffeisen Cooperatives (*Österreichischer Raiffeisenverband, ÖRV*), which originally was a self-help organisation of farmers and today focuses on banks and manufacturing like the food-processing industry. Other two represent agricultural companies: one is the already mentioned Chamber of Agriculture; and the other is a free association called Standing Committee of the Presidents of the Employers' Associations of Agriculture (*Obmännerkonferenz der Arbeitgeberverbände der Land- und Forstwirtschaft in Österreich, OALF*). Finally, it can be considered relevant also the Austrian Association of Public and Social Enterprises (*Verband der Öffentlichen Wirtschaft und Gemeinwirtschaft, VÖWG*), which represents both companies with public participation or ownership and services of general interest (education, health, cultural services and the like), and it is often involved in tripartite talks on the future of the services of general interest (Adam 2010)

Concerning the IV, this is a free association founded to represent the interests of industrial firms. While maintaining a strong focus on companies using industrial methods of production, such as large manufacturing firms, the IV has recently extended its domain to business activities somehow related to industry, and thus it has come to represent also banks, insurance companies, telecommunication companies, and power-supply companies. The average firm size of IV's member companies is higher than that of most European business associations, but the organisation maintains that the majority of member firms are SMEs and seems not willing to give the impression of representing mainly large companies (Traxler 2007c). Nevertheless, the fact that voting in the general assembly is weighted according to the number of firms' employees significantly reduces the influence of SMEs in the association, especially in comparison to what happens in the case of the WKÖ (see *infra*). As the IV is not a confederation, members are directly affiliated to it. There are no forms of internal interest differentiation (e.g. along territorial or sectoral

lines), and so the organisation focuses its representation activities on the general interests of industry. As a result, the IV is less inclusive than the WKÖ, and this, together with the low sanction leverage vis-à-vis members (related to the voluntary nature of membership), make it more difficult for the organisation to internalise interest conflicts. This difficulty is accentuated by the fact that the organisation is largely dependent on members' dues, while the provision of services to member firms is neither a relevant second source of financing, nor an effective means to attract new members⁷⁴. As a consequence, the IV focuses its activities on member interest representation. The latter takes the form of lobbying for the general interests of industry, but most of the time this activity is directed at the WKÖ rather than at the government⁷⁵.

Against this background, the WKÖ occupies a central position in the Austrian system of employers' associations. Such position is the result of a combination of institutional features that makes it particularly strong and functional to public policy purposes at the same time. Recalling what already discussed in Chapter 4, the WKÖ is certainly the most inclusive peak employers' association not only in Austria, but in the entire Europe, due to the compulsory membership provided by public law. According to the 1946 Act regulating structural and functional aspects of the WKÖ (Wirtschaftskammergesetz), every natural and legal person is required to become a member of the organisation, and consequently to obtain the relevant operating licence, if its business (both for profit or non-profit) relates to one of the following sectors: craft production; commerce; banking and insurance; transport; tourism; information and consulting (including telecommunications, radio and television); and the aforementioned industry (including manufacturing and construction). Basically, the only areas that fall out of the scope of the WKÖ's domain are: the liberal professions, which have their dedicated interest associations; and agriculture, which falls under the scope of the Chamber of Agriculture and the OALF, as already mentioned.

⁷⁴ In fact, on the one hand, large firms hardly use such services and when they use them they do not make it visible (Traxler 2007c); on the other hand, firms (especially SMEs) can already rely on the services of the WKÖ (see also *infra*).

⁷⁵ For example, the special interests of the various segments of industrial business are processed and promoted through the industry division of the WKÖ (Traxler 2007c).

Table 3 shows the membership composition in December 2009, providing a breakdown for the sectoral sections⁷⁶.

Table 3 - WKÖ's membership by sector

Section	Enterprises		Employees	
	Number	share%	Number	share%
Craft production	92.617	31,5	562,814	26,0
Industry	6.336	2,2	404,723	18,7
Commerce	72.874	24,8	465,648	21,5
Banking, Insurance	1.077	0,4	105,410	4,9
Transport	17.740	6,0	197,283	9,1
Tourism	52.509	17,8	264,115	12,2
Information, Consulting	51.244	17,4	164,316	7,6
ALL SECTORS	294,397	100,0	2.164.309	100,0

S: WKÖ (2010).

The compulsory nature of WKÖ's membership favours the recruitment of SMEs, which is usually more complicated than that of larger firms, as we have seen in Chapter 3. Moreover, the formula *one member, one vote*⁷⁷ clearly makes the WKÖ strongly oriented by SMEs' imprinting⁷⁸. To visualize the weight of SMEs in the WKÖ, Table 4 in the next page gives an overview of the membership in December 2009 distinguished by firm size⁷⁹.

⁷⁶ The membership is measured on the basis of the number of firms falling under the scope of the WKÖ, as well as of the number of workers employed by the member firms. Among the latter, the WKÖ calculates also the so-called "one-person-enterprises" (i.e. enterprises without employees).

⁷⁷ This formula applies to primary elections, whereas for higher levels, such as the federal assembly, the voting system is weighted for sectoral economic importance, so that industry, banking and insurance have more delegates in proportion to their membership shares (Traxler 2007c).

⁷⁸ For this, large companies asked a reduction of membership dues, which was successfully implemented by the WKÖ. Since 2004, dues have been reduced of about the 30% (Traxler 2007c).

⁷⁹ The average number of workers employed by WKÖ's member firms is 7. The median is 1 employee.

Table 4 - WKÖ's membership by firm size

Size	Enterprises		Employees	
	Number	share%	Number	share%
0	144,358	49,0	0	0
1-4	92.652	31,5	180.497	8,3
5-9	26.570	9,0	173.998	8,0
10-19	15.488	5,3	208.250	9,6
20-49	9.523	3,2	287.743	13,3
50-99	2.936	1,0	201.686	9,3
100-149	1.030	0,3	123.913	5,7
150-199	510	0,2	87.713	4,1
200-249	300	0,1	67.084	3,1
250-499	609	0,2	206.143	9,5
500-999	260	0,1	175.474	8,1
1000+	161	0,1	451.808	20,9
ALL COMPANIES	294,397	100,0	2.164.309	100,0

S: WKÖ (2010).

The vast variety of interests organised under the umbrella of the WKÖ has required a sophisticated internal differentiation of interests by regions, through the 9 *Land*-level Chambers and the related subunits, and by sectoral composition, through industry sector divisions and federal branch subunits. Regional chambers, divisions and subunits allow for the articulation of specific interests within the organisation and a more accurate aggregation of the interests that involve different subunits. However, especially with reference to matters of public legislation that affect business interests, the articulation of specific interests cannot translate into a pluralism of demands on part of the business community. This because on the one hand the WKÖ is legally urged to aggregate member interests into a single collective voice (Traxler 2007c); on the other hand, since it cannot easily externalise interest conflicts, it is strategically forced to do so by balancing the differing motives and demands of business segments in a fair way (Interview 4), so as to ensure members' governability. However, the process of internal interest unification is

favoured at least by two sets of organisational features. The first is compulsory membership. This not only makes membership indispensable to carry out business activities in the country (thus increasing the sanction leverage of the organisation), but also eliminates the pressure of competing for members with rival organisations⁸⁰. Consequently, compulsory membership reduces the need of the WKÖ to represent member interests in their most authentic form (an imperative of the logic of membership). The second refers to WKÖ's monopoly of representation in collective bargaining issues and its institutionalised participation in public policy governance, which together with the high specialisation in business service provisions strengthens the organisation vis-à-vis its members.

Finally, as regards the activities of the WKÖ, these are not limited to labour market interest representation in the collective bargaining or in the public policy arenas, or to the accommodation of product market interests. In fact, being a public law body, the WKÖ is also in charge of the implementation of policies that regard business, and for this it entertains close ties with public authorities (Traxler 2007c). For example, the organisation has some offices in charge of certifications and apprenticeship issues, which are subjected to the instruction of the relevant Federal Ministry⁸¹. The consequent bureaucratisation of its structure, together with its privileged position in the Austrian social partnership system, has further supported its public policy functions, and thus enhanced its overall governance capacity.

⁸⁰ Coordination rather than competition with other employers' associations is particularly common both to facilitate inter-associational cooperation for the promotion of shared interests and for the sake of saving economic resources. For example, through special agreements the WKÖ devolves some of its technical tasks to other organisations, which collaborate in exchange of their interest representation through the Chamber. Interestingly enough, these agreements involve also the practice of multiple office-holding described earlier in this Chapter.

⁸¹ However, the WKÖ remains autonomous from the state within the scope of its mandate. This is a necessary condition for its activities of employers' private interest representation.

2. The historical and politico-economic context of Italian employers

2.1 Italian economy at a glance

Italy is one of the largest economies in the world, and a member of the Group of Eight since the early days of its establishment. The overall level of economic development tends to downplay territorial differences within the country though. In fact, the structure of the Italian economy can be divided into three main regional areas: the north-west, where most of the large manufacturing companies are concentrated; the north-east and the central regions of Italy, known for their industrial districts and for the prevalence of family-owned SMEs; and the south, whose economy is much less developed than the rest of the country and mainly reliant on the public sector.

The labour market performance was comparable to the European average in terms of unemployment levels till the early 1990s, when Italy started encountering some difficulties in keeping unemployment rates close to those of the other advanced European economies. Yet, over the past decades, the largest differences of labour market performance between Italy and other developed European countries have regarded employment levels. According to Eurostat (Labour Force Survey), in 2007 the number of persons in employment was 23,221 out of a population aged 15-64 of 38,946 people, and the increase of the employment rate of about 8 percentage points with respect to 1997 (58.7% in 2007) has been insufficient to reach the EU-15 average (66.8% in 2007). The incidence of employment in general government on the overall employment has remained at the level of 14.2% in the period 1990s-2000s (OECD 2009); a level that is lower than that of large economies like France, and far below the high levels of the Nordic countries. As far as the employment structure is concerned, Eurostat records show that the percentage of temporarily employed in Italy has recently reached the European average (13.2% in 2007), although ten years earlier it was rather low (7.9 in 1997) and comparable to the Austrian one. Conversely, part-time work is relatively underdeveloped in Italy (13.6% in 2007) with respect to the Austrian (22.6% in 2007) and the average European (20.9% in 2007) levels. Self-employment has remained rather high in comparative perspective, and in 2005 it accounted for the 27% of total employment (OECD Factbook 2011).

Over the past decades, the sector composition of the Italian economic structure has experienced an expansion of the tertiary, especially in tourism and trade-activities, which together make for one-fourth of the total employment. Instead, research-intensive industries are still marginal in terms of employment, while labour-intensive sectors (typically in manufacturing and construction) continue to account for a large share of the economy. Table 5 gives an overview of the changes in the relative weight of the main economic sectors on the Italian gross value added between 1998 and 2008.

Table 5 - Relative weight of sectors in the Italian economy

% GROSS VALUE ADDED	Agriculture, hunting and fishing	Industry, including energy	Construction	Trade, transport and communication services	Business activities and financial services	Other services
1998	3.1	24.5	4.9	24.2	23	20.3
EU-15	2.4	22.9	5.5	21.4	25.5	22.3
2008	2.0	20.8	6.2	22.3	27.7	21
EU-15	1.6	19.3	6.3	21.8	29.0	23.0

S: Eurostat, National Accounts Database.

The table shows some first similarities with the Austrian economic structure, but also a couple of differences. In particular, on the one hand, the share of construction activities is higher in Austria, due to the long presence of public ownership in the sector; on the other hand, the primary sector in Italy is bigger, as a natural consequence of the geomorphic differences between the peninsula and the Alpine landlocked mountain country. What is not displayed, though, is the development of the Italian public sector, which followed the same trajectories of Austria as far as privatisation processes are concerned. As a matter of fact, Italy had a huge state participation in almost any type of economic activities, aimed to sustain employment levels. As state-ownership was more conceived as an instrument of social policy rather than oriented to profitability, many state-owned companies were rather inefficient. In the long run this inevitably contributed to increase public budget deficits.

The need to restore balanced public finance accounts, especially under the external pressure of the European integration process⁸², gave a strong impulse to massive privatisation plans since 1992, when even a law on the transformation of state-owned enterprises into joint stock companies was passed (law 359/1992). From then on, the Italian governments have entirely or partly sold off many state-owned companies, most of which of very large size (Corte dei Conti 2010): the IRI, which was an holding including a variety of enterprises operating in different economic sectors (industry, services, banking); three nation-wide banks (Credito Italiano, BCI and BNL); the national institute of insurance companies (Istituto Nazionale delle Assicurazioni); two big energy suppliers (ENI and ENEL); the tobacco industry; the national railways; the telecommunication industry; the Alitalia airway company (of which only a few assets have been sold off in 2008).

Similar to what discussed for Austria, it is possible that the long state control over the largest national enterprises has influenced the average small size of private (non-financial) business in the country⁸³. Overall, SMEs in Italy constitute almost the 99% of firms, accounting for the 82% of total employment (ISTAT 2008). A distinguished Italian trait is that family ownership is considerably widespread among SMEs. This is especially true for micro-firms, which dominate the Italian private sector, representing in 2008 the 94.3% of all companies (Eurostat, Structural Business Statistics) and employing 17 million workers, some 47% of the total Italian employment (ISTAT 2008). Instead, the share of small firms in 2008 was down to 5.1% and medium-sized firms were 0.5%. Large firms are very rare in the Italian landscape, with a presence on the territory at the level of 0.1% (Eurostat, Structural Business Statistics).

⁸² This pressure was exerted by the EU indirectly, through the Maastricht requirements to join the monetary union; and directly, through either sanctions related to the infringement of the European state-aid regulation or the implementation of European directives (e.g. the directives on the liberalisation of electricity supply and telecommunication sectors).

⁸³ Indeed, public ownership of large firms is not the only possible explanation for the considerable diffusion of SMEs in Italy. Other possible reasons are: economic (i.e. as raw materials are scarce, the production focused on the transformation industry and commerce); legal (e.g. art. 18 of the Statute of Workers regulates firing without just cause, distinguishing between firms with more and with less than 15 employees); and cultural (e.g. the tradition of family ownership).

2.2 Social partnership and public-policy making in Italy

The relationship between state and society in Italy is a real puzzle for scholars engaged in international classifications. As a matter of fact, in the Italian system the government and socio-economic interest groups have traditionally acted together in policy-making in a quite unstable (rather than fully corporatist) way. As Schmidt (2006) stresses, the absence of public law provisions backing socio-economic cooperation has made the relations very much dependent on state action, which in Italy has historically been particularly volatile. Due to the strong reliance on governmental spontaneity, this form of capitalist governance has been variously defined as state corporatism (Lanzalaco 1990), polarised or state-centred regime (Visser 2008). While voluntarism and informality have brought some advantages during the 1980s, such as high flexibility in the formulation and implementation of solutions in a phase of demanding change, at the beginning of the 1990s the need to reduce the uncertainty connected to Italian industrial relations and to make public policy supportive of national competitiveness in an increasingly globalised world has promoted the formalisation of collective bargaining and the resurgence of policy concertation in a relatively more stable fashion (Regini and Regalia 1997). The turning point has been the tripartite agreement of 1993, which introduced clearer rules in the Italian collective bargaining structure. This opened up a new phase also for central bargaining over labour market and social reforms ranging from employment regulation to pensions, which has been considered striking in comparative perspective in terms of number and scope (Molina and Rhodes 2007). Over the past two decades, several social pacts have been agreed among the social partners and the many short-lived governments, although recently this wave of concerted policy-making has slowed down, especially under the centre-right governments of the year 2000s, which have been not inclined to take up this practice (Molina and Rhodes 2007).

The involvement of organised socio-economic groups in bargained interest accommodation and policy concertation does not follow formal rules, so that participants to state policy-making are a restricted number of actors, which informally recognise each other as social partners. Although at times a broader number of peak associations have obtained access to the government, the usual protagonists of the national policy process

are: the Italian General Confederation of Labour (*Confederazione Generale Italiana del Lavoro*, CGIL); the Italian Confederation of Workers' Unions (*Confederazione Italiana Sindacati dei Lavoratori*, CISL); the Italian Union of Labour (*Unione Italiana del Lavoro*, UIL); and the General Confederation of the Italian Industry (*Confederazione Generale dell'Industria Italiana*, Confindustria). These cross-sectoral peak workers and employers' associations, like the many other present in the Italian associational system, have long been characterised by intra-class ideological divisions, which combined with inter-class conflicts have contributed to a more confrontational pattern of industrial relations. In the past, ideological differentiation has led private interest organisations to become strongly dependent on political parties; this phenomenon is known as *collateralismo* (Mattina 1997). For example, the CGIL has been traditionally close to the communists and the socialists, while the CISL was founded by catholic and social-democratic trade unionists that split from the CGIL over 60 years ago⁸⁴. However, after the break-down of the Italian political party system, occurred in the first part of the 1990s as a consequence of the series of investigations against political corruption (known as *Mani Pulite*), the ideological ties between economic interest associations and parties have been dramatically reduced, mainly because corruption scandals have led to the dissolution of many large political parties⁸⁵. Since this phase of prosecutions for corruption, which involved also many exponents of the Italian entrepreneurial world, the Confindustria has continuously stressed its political neutrality, although suspects of ideological affinities between the centre-right government established in 2001 and the leadership of the organisation have been advanced by some observers, as we will see in Chapter 7. In the next paragraph, instead, we return on the

⁸⁴ Independent labour organisations, the so-called *Cobas*, have emerged in reaction to the politicisation of unions' action.

⁸⁵ After the breakdown of the old system and the introduction of a majoritarian electoral law, the Italian party system has become more fragmented than before, but also bipolar. During the first half of the 1990s, Christian Democrats and Socialists have split in new right-wing and left-wing parties, while the Communists have reformed their political organisation into a post-communist party and a neo-communist party. Also, new subjects have entered the national scene, like *Forza Italia* (a personal party guided by the wealthy entrepreneur Silvio Berlusconi), *Alleanza Nazionale* (born after the reform of the post-fascist MSI), the *Verdi* (green party), and the *Lega Nord* (a regionalist-populist party calling for greater autonomy of the Northern regions since the 1980s). Over the past decades, bipolarisation has strengthened party coalitions and led to the unification of some parties into new subjects, like the *People of Freedom Party* on the right side, and the *Ulivo* and the *Democratic Party* on the left side. In view of the complex fragmentation of the Italian party system and the heterogeneity of the government coalitions formed in the last twenty years, in Chapter 7 we will provide a list of the relevant parties on power for each reform episode in analysis.

issue of ideological differentiation to better characterise the constellation of employers' associations in Italy.

2.3 The organisation of business interests in Italy

As mentioned earlier in this chapter, the peak employers' association that has historically gained more regular access to governmental policy-making is the Confindustria, although Italian executives have often consulted also other peak employers' associations, whose member interests were deemed to be affected by envisaged legislation. As the Confindustria is the principal Italian cross-sectoral peak employers' association, we will explore its main organisational features in detail below. Before this, however, we want to make some comments on the peculiar constellation of interest associations that organise business in Italy, and to its relations with Confindustria. In particular, in the country there are other 11 cross-sectoral peak organisations, several associations organising sectors with considerably high employment levels, and, not least, a Chambers system endowed with public law status that recalls the Austrian one to a certain extent.

According to Vatta (2007), in Italy the following free cross-sectoral nation-wide associations are engaged in both collective bargaining and (less often) employers' interest representation in tripartite venues: the Confederation of Small and Medium Enterprises (*Confederazione Italiana della Piccola e Media Industria, Confapi*) in industry; the General Confederation of Commerce, Tourism, Services and SMEs (*Confederazione Generale del Commercio, del Turismo dei Servizi e delle Piccole e Medie Imprese, Confcommercio*), the Italian Confederation of Commerce, Tourism and Service Activities (*Confederazione Italiana Esercenti Attività Commerciali, Turistiche e dei Servizi, Confesercenti*), the General Italian Confederation of Crafts (*Confederazione Generale Italiana dell'Artigianato, Confartigianato*), the National Confederation for the Craft Sector and SMEs (*Confederazione Nazionale dell'Artigianato e della Piccola e Media Impresa, CNA*), the Independent Confederation of Artisans' Organisations (*Confederazione Autonoma dei Sindacati Artigiani, Casartigiani*) and the Confederation of Italian Free Craft Associations (*Confederazione delle Libere Associazioni Artigiane Italiane, CLAAI*) in handicraft; the National League of Cooperatives (*Lega Nazionale Cooperative e Mutue, Legacoop*), the Confederation of Italian Cooperatives (*Confederazione Cooperative*

Italiane, Confcooperative), the National Union of Italian Cooperatives (*Unione Nazionale delle Cooperative Italiane, UNCI*) and the General Association of Italian Cooperatives (*Associazione Generale delle Cooperative Italiane, AGCI*) organising cooperatives.

Besides these cross-sectoral organisations, some other associations, focused on specific sectors, try to lobby for their member interests in the relevant policy areas. Among these, a part from the agricultural sectoral associations (*Coldiretti* and *Confagricoltori*), there are: the Italian Banks Association (*Associazione Bancaria Italiana, ABI*), whose members employ about 300,000 workers, and the Italian General Confederation of Transports and Logistics (*Confederazione Generale Italiana dei Trasporti e della Logistica, Confetra*), whose members employ about 500,000 people (Vatta 2007). In Chapter 7, we will also mention another association that we could include in this group, namely the National Association of Insurance Companies (*Associazione Nazionale fra le Imprese Assicuratrici, ANIA*).

As for the Chambers, they cannot be conceived as interest representation associations, because they limit their tasks to the provision of services for business (e.g. licencing, trade promotion, etc.), which they usually carry out in close cooperation with the public administration. Considering that their umbrella association, the Unioncamere, was established in 1901, the Chambers are with the Confindustria (established in 1910) the oldest structures organising business in Italy. However, especially after the coming of Fascism, under which the Confindustria became the major employers' organisation, the Unioncamere did not develop on the side of representation activities and remained substantially an administrative body.

The extreme fragmentation of the organisation of business in Italy has been variously explained with the economic predominance of SMEs and the ideological differentiation we have mentioned in the previous paragraph. Concerning the latter, we must add on our previous discussion that the organisation of the Italian SMEs has been traditionally characterised by ideological cleavages, so that the same domain has been often contended by two opposed associations, one leaning towards the left and the other towards the right (e.g. CNA and Confartigianato, for the handicraft sector). It is probably due to the awareness of the drawbacks of this system in terms of political influence that several of the associations organising SMEs one way or the other have recently agreed to bind together in a new organisation, called R.ETE Imprese Italia, which is meant to coordinate the activities

of CNA, Confartigianato, Confcommercio, Confesercenti and Casartigiani without any politico-ideological orientation. At the time of writing, it is still not possible to determine the weight of this new subject in the Italian landscape of employers' associations, but we want to stress that future developments may change the inter-associational equilibria within the Italian business community. As a matter of fact, by bringing together the members of 5 cross-sectoral peak associations, at the moment of its establishment in May 2010 R.ETE Imprese Italia covered about 2,592,666 companies against the 142,762 of the Confindustria (Lanzalaco 2010). Hence, despite for the time being the Confindustria can be still considered the economically predominant voice of business, it will become more and more important for it to establish a cooperative dialogue with R.ETE Imprese Italia, if it does not want to reduce its political influence.

Still, there is a further motivation of such high fragmentation of the Italian employers' associational system. The lack of exclusive regulation, limiting the access to corporatist boards and collective bargaining to a few private interest associations, has rendered inter-associational coordination less necessary to advance member interests. So, for example, the National Council for Economy and Labour (CNEL) – that is the most important Italian tripartite institution of social dialogue, specialised in consultation and research functions – includes representatives of all the main peak employers' associations mentioned above, plus a number of other sector-specific associations. Seemingly, the formulation and implementation of territorial pacts (called *patti territoriali*) for the development of economically depressed areas usually involves, besides the Confindustria (Vatta 2007), the main peak associations for crafts that contend with the former the representation of those SMEs to which such programmes are usually targeted.

Against this background, and considering that membership domains and associational activities largely overlap among organisations⁸⁶, we can see how the Italian system is characterised by high levels of inter-associational competition, as anticipated in our methodological chapter. Notably, although many of the associations listed above have somewhat specialised in the representation of specific groups, whereas the Confindustria is

⁸⁶ Among the overlapping activities, besides the already mentioned participation in public policy formulation and implementation (especially at the local and regional level), there are also those in the fields of collective bargaining and provision of services to business. In the former, all the 12 national cross-sectoral peak associations are entitled to represent employers' labour market interests. Concerning services, most of the 12 organisations provide support to members, for example by coordinating their relations with administrative institutions, or through financial, economic and juridical consulting.

the association with the more comprehensive domain, the former constantly challenge the ability of the latter to organise SMEs. This is why over time the Confindustria has tried to strengthen its role of representative of SMEs, as it appears from the establishment of a dedicated board within the organisation.

The question of Confindustria's difficulties in organising SMEs brings us to shift our attention on the specific properties of this organisation, and especially on its ability to govern its increasingly complex representation domain. To start with, despite its efforts to recruit and tie SMEs, the organisation remains clearly dominated by large firms, although these constitute only a minimal part of the total members⁸⁷. This is due to at least two reasons. The first is the economic predominance of large firms in terms of employment. The second is that the proportional voting system⁸⁸ favours the representation of larger firms' interests over those of smaller firms.

Unifying members' interests has become increasingly difficult for the Confindustria not only due to the cleavages between smaller and larger firms or the inter-associational competition for SMEs' recruitment, but also as a consequence of the extension of the representational domain started at the beginning of the 1990s. Today, the Confindustria represents all firms in industry and services that rely on industrial organisation, as a result of the integration of services (1991) and former state-owned companies (mid-1990s) with the core industrial membership. In 2008, 56% of the members were manufacturing firms (including construction), employing 71% of member firms' employees; and 44% were service firms, employing the 29% of member firms' employees (Confindustria, 2008). Besides the historically strong presence of manufacturing firms, also sectors like transport, tourism and energy supply now make for a considerable part of the membership.

In Table 6 (next page) we report the data compiled by Vatta (2007) on membership composition by sector in December 2002, as they were not only relatively recent, but also complete and accessible.

⁸⁷ For example, in 2008 the 83% of member firms had less than 50 employees, and the 60% had less than 15 employees (Confindustria 2008).

⁸⁸ Contrary to the *one firm, one vote* formula, proportional voting reduces the intra-organisational influence of SMEs, because votes are weighed on the basis of the levels of employees and of contributions to the organisation of each member firm.

Table 6 - Confindustria's membership by sector

Sectors	Member firms	Employees covered
Energy, gas and water	1,071	76,682
Mining, construction materials	3,895	176,832
Chemicals, pharmaceuticals	4,472	312,952
Metalworking	19,381	1,380,816
Food and beverage	6,404	224,095
Textiles, leather, clothing	9,561	447,862
Wood and furniture	2,988	113,742
Paper and publishing	3,207	126,093
Rubber and plastic	1,699	137,921
Other manufacturing	1,092	51,195
Construction and installations	13,690	154,316
Transports and communications	7,198	348,799
Tourism and entertainment	21,317	343,556
Services, other tertiary activities	17,612	385,224
Total	113,587	4,280,085

S: Vatta (2007).

As also the author noted, the extension of the representational domain has had a double effect. On the one hand, it has increased the inclusiveness of the organisation, making the latter more similar to a general interest association.

On the other hand, though, the increased complexity of the organisation has made it more complicated to articulate and aggregate the diverse member interests into common policy goals, especially in the absence of effective sanction leverage. Sacrificing particularism for the sake of unity is not so easy for an organisation that cannot rely on compulsory membership and is constantly under the pressure of competition with many other peak cross-sectoral associations, so that we can reasonably expect that the logic of membership tends to prevail in goal and strategy formation⁸⁹. This is even more so when one considers

⁸⁹ The imperatives of the logic of membership appear pressing also in consideration of the fact that the organisation is largely dependent on members' financial support, although over time it has increasingly tried to diversify its financial sources (e.g. by collecting profits from its publishing house, *Il Sole 24 Ore*), as a consequence of members' complaints concerning the level of dues, which seems to be rather high in comparative perspective (Vatta 2007).

the characteristics of the internal differentiation allowing for the articulation of territorial and sectoral interests. According to data disseminated through its website, today (2012) the Confindustria organises 18 regional federations, 100 territorial associations, 25 sectoral federations, 101 branch associations and 21 external independent business interest associations. These figures have not sensibly varied over time, so that they are similar to those of the early 2000s, especially as far as the proportion of territorial over sectoral associations is concerned. The prevalence of territorial associations is indeed an historical trait of the Confindustria, which has been explained by the fact that the northern Italian regions close to the original headquarters in Turin have been the front-runners of industrialisation (Lanzalaco 1990), and today they still represent the central productive area of the country. As the functions attributed to territorial and sectoral associations *de facto* generate a dual channel of interest representation, the governance capacity of the Confindustria is further challenged. Difficulties in the coordination and aggregation of the interests of territorial and sectoral components have typically weakened the vertical dimension of the organisation vis-à-vis its horizontal dimension (Vatta 2001).

Finally, representation of employers' interests in collective bargaining and in the area of product market interests is a key task of sectoral associations, while the Confindustria and its territorial associations are involved in public policy-making, at the national and regional level respectively. Research has reported an intensification of Confindustria's engagement with political lobbying vis-à-vis collective bargaining and provision of services, although it has also been stressed the lack of a long-term view of the organisation in the formulation of the goals and strategies to be pursued in the arena of industrial relations (Bordogna 2004).

3. Summing up

The political economy of employers' interests in Austria and Italy seems to be pretty much comparable. As also anticipated in the methodological chapter, many are the context similarities related to the socio-economic structure in which employers operate. To start with, the two national economies are still characterised by relatively developed labour-intensive sectors in comparative perspective (typically in manufacturing and construction), while research-intensive industries play a marginal role. The two countries have started the processes of de-industrialisation and privatisation of state-owned enterprises equally late

and almost synchronically. In both cases, these processes have paved the way for the expansion of the tertiary especially in tourism, retail, and restaurants, and for the reduction of the pervasive presence of the state in economic activities. Private business in the two countries is typically small- and medium- sized, with micro and small firms accounting for the 98% (and over) of the total enterprises. Companies bear a relatively high burden of taxes and social contributions on employed labour in comparative perspective. For example, Eurostat (Government Finance Statistics) calculates that the implicit tax rate on labour in 2007 was 41.0% in Austria (40.7% in 1997) and 42.4% in Italy (43.5% in 1997), against the 38.5% of the Eurozone (39.5% in 1997). As also mentioned in the methodological chapter, the high taxation on labour is partly a consequence of the insurance-based welfare system common to the two countries, whose social protection schemes are mainly financed out of social security contributions paid by both the worker and the employer⁹⁰.

On the other hand, the Austrian and Italian employers are embedded in two very different systems of political representation. In Austria employers are much more comprehensively and cohesively organised, as a result of the high inclusiveness of their principal peak association, the WKÖ, and its ability to coordinate its representation activities with the other peak associations in the system. Indeed, the Austrian organisation of business interests displays a high level of organised complexity, with the WKÖ functioning as a centre of gravity of the employers' representation system. Moreover, the capacity of employers' representatives to unify members' interests so as to come at one single collective voice of business is not optional, as it is even legally required. These characteristics are a sign of the relative prevalence of the logic of influence over the logic of membership in organisational behaviour. In fact, if the organisational structures of employers' interest representation were geared to meet the imperatives of the logic of membership, they would have followed employers' preference for (rival) narrow

⁹⁰ We do not mean, by any means, that the Austrian and Italian welfare systems are perfectly identical concerning the organisation of their social protection schemes. For example, the Austrian system relies also on an unemployment assistance pillar financed out of general taxation that is absent in Italy. Another main difference is that the national health care system in Austria is insurance-based, while in Italy not. However, referring also to the famous classification of welfare states made by Esping-Andersen (1990), the Austrian and Italian systems pertain to the same group of countries where relatively generous occupational schemes prevail over social provisions based on redistributionist taxation (like in the Nordic countries) and residual forms of state support (like those typical of Anglo-saxon countries).

representation domains and fragmented associational systems (Ch. 3, par. 3.1). As the opposite is true, the Austrian organisation of employers' interests is relatively more responsive to the political requirements of successful associative action, such as coordination and unification of business heterogeneous interests, concentration of power and resources, and accommodation of political demands to achieve compromises with other political actors in return of (part of) its member interests' satisfaction. The importance of the logic of influence for the Austrian employers' political representation system is also reflected in the high level of autonomy of the WKÖ from the membership and from other possible associational competitors. Compulsory membership and the institutionalised participation in the Austrian policy process, together with a series of other organisational privileges (e.g. monopoly of representation in collective bargaining, public status and consequent permanent collaboration with public authorities for the implementation of many state regulations, etc.), show that the success of WKÖ's associative action is relatively less dependent on members' socio-economic influence than it is on its ability to maintain stable political influence, even if at times this implies to disappoint and bring under control members. The latter ability is enhanced especially thanks to state sponsorship (i.e. assistance through formalisation and institutionalisation of WKÖ's prerogatives), which however presses the organisation for more moderate, public-regarding and long-term policy goals and strategies.

In Italy, instead, the organisation of business interests is highly fragmented into a number of rival peak associations, which compete for functional tasks and for the organisation of SMEs in different sectors. The system described is scarcely responsive to the demands of inter-associational interest coordination. While the latter cannot be excluded, it is certainly not praxis in the process of unification of Italian employers' interests into collective goals and strategies. To the contrary, the many narrowly-defined groups lobbying for business interests in Italy (with the exception of the Confindustria, whose domain since the early 1990s is comparable to that of a general interest association) allow for the externalisation of interest conflicts, so that the predominant logic of associative action is that of the membership. As a result, the political and economic representation of employers in Italy is made of many associations with overlapping domains and activities, and without clear agreement on mutually exclusive representation. The relative importance of the logic of membership over the logic of influence in the Italian type of business political organisation

is also reflected by the absence of forms of state support for the organisational development of the Confindustria. As the principal peak employers' association lacks of the important resource of state sponsorship (and so any other peak employers' association may in principle gain access to the central policy process and be competitive on the political market), organisational autonomy is very low and goal formation is geared to meet the immediate demands of members. As a result, the Italian organisation of business interests seems to have a relatively limited capacity to discipline employers and to accommodate their demands with the requirements of political influence, as compared to the Austrian one.

To conclude, while the political economy of employers' interests is comparable in the two countries, the type of business political (and economic) representation appears very different in structural and functional terms. Against this background, in the next chapters we will try to see whether such difference may indeed be expression of differing governance capacities and hence shape divergent patterns and outcomes of business collective political action in occasion of similar reform episodes. In our case, these episodes involve the changes in the regulation of the severance pay occurred between the 1990s and the 2000s in Austria and Italy.

VI. Organised Business and the Case of the Austrian Severance Pay Reform

The role of organised business for the establishment of a new severance pay system in Austria is an interesting case of cooperation. Yet, the positions of employers have not remained constant all along the reform process. During the quite many years of discussions and negotiations, employers' representatives have adjusted their goals and strategies to the rather heterogeneous interests of the membership and the divergent policy objectives and approaches of institutional interlocutors.

Similar to the Italian case, the various severance pay reform episodes described below have involved employers in the development of supplementary pensions too. Since the 1990s, the latter had turned to be increasingly necessary to contain public expenditures for statutory pensions without cutting back future pension provisions, like in Italy. With respect to the Italian case, though, there are remarkable differences in the motivations behind the political behaviour of the key actors, the way in which interest conflicts have been eventually reconciled, and the governance capacity manifested by the Austrian organisation of business interests.

To set off the specificities of the Austrian case study we have divided our historical reconstruction in two broad episodes. The first refers to the missed severance pay reform of the 1990s (par. 2). Even a non-reform is an interesting case to study, because it nevertheless shows specific patterns of business collective political action. Besides, it is important to analyse the principal actors' positions and motives that act as the basis for a better understanding of the following reform episode. For the sake of clarity, we have further distinguished two main phases within this first episode: a phase of initial bipartite negotiations between workers and employers' representatives that eventually failed to reach an agreement on the new scheme; and a phase in which the SPÖ-ÖVP government tried to continue the reform process without success. The second episode refers to the policy process of the beginning of the 2000s, when the ÖVP-FPÖ coalition sought to carry on the severance pay reform and finally achieved its aim, through ups and downs (par. 3). This episode includes three phases: a phase in which the ÖVP-FPÖ government announced

the intention to pass a reform of the Austrian severance pay, but eventually split on aspects of the policy design; a phase in which the government turned to the social partners, urging them to find an agreement on the key points for reform; and a parliamentary phase during which private interest organisations formed a coalition against governmental attempts to leave out of the reform bill some of the points contained in their joint proposal.

Once we have traced the process leading to the introduction of the new severance pay regulation, we try to analyse whether and how the politico-organisational context has actually shaped the observed role of the business community in the reform (par. 5), with special reference to our research hypothesis (Ch. 3, par. 5).

Finally, to facilitate the understanding of both actors' views and policy problems connected to the various aspects of the reform design, in par. 1 and par. 4 we discuss the core characteristics of the old and the new severance pay.

1. The old severance pay

1.1 The institutional framework before the reform

The Austrian severance pay system was originally introduced to support private sector workers' income during the transition period from one job to another. Initially it was targeted only to white-collar workers and regulated under the 1921 Salary Earners Act (*Angestelltengesetz*). Many decades later, the provisions came to cover also blue-collars by means of an amendment to the 1979 Wage Earners' Severance Pay Act (*Arbeiterabfertigungsgesetz*). According to the old eligibility criteria set in these laws, severance payments were due upon involuntary dismissal, with the exception of cases of dismissal for just cause⁹¹. Voluntary resignations with (*Selbstkündigung*) or without appropriate notice, as well as collective dismissals, did not give access to the benefits. Nevertheless, the legislation provided some exceptions too. In particular, workers were eligible for payments upon voluntary dismissal in case of retirement after at least 10 years of employment and in certain cases of care leave after 5 years of employment. Upon death

⁹¹ Just cause refers to cases in which the employer fires the employee because of serious misconduct of the latter. For example, thefts, habitual neglect of duties or intentional disobedience to the employer's orders, are considered cases of just cause.

of the employee, the law provided that half of the sum of severance payments had to be transferred to the dependants. Entitlements followed a system of fixed thresholds, according to which the amount of benefits increased in gradual steps on the basis of the length of service with the same employer, starting from a minimum length of 3 years (*Betriebszugehörigkeit*).

The level of benefits was calculated as a multiple of the last gross monthly salary (including overtime and allowances) proportional to the length of service⁹². The taxation was already rather generous, as severance payments were freed from social security contributions and the income tax rate was 6%. Benefits had to be transferred to the employee in the form of a one-off pay-out. The employer had to take care of registering the due liabilities in the balance sheet and to hold securities for at least one quarter of the employee's accumulated entitlements⁹³. Despite the position of severance payments in the balance sheet reduced the overall taxable income of the company, the scheme represented a relevant cost for the employer, as payments had to be made all at once whenever the employer was in need of making employees redundant. For this reason, it often happened that employers tried to circumvent severance payments by claiming just cause or by inducing workers to resign. However, this was only one of the pitfalls related to the old severance pay. Another central problem of the old legislation was the limited coverage of the scheme, which presented many protection gaps, especially in relation to workers employed under non-standard contracts, with the sole exception of construction workers⁹⁴. These and other shortcomings of the previous model of severance pay will be discussed in more detail in the next paragraph.

⁹² The incremental steps were set as follows: 2 times the last gross monthly wage after 3 years of continuous employment with the same employer, which became 3 after 5 years, 4 after 10 years, 6 after 15 years, 9 after 20 years and 12 after 25 years.

⁹³ In case of bankruptcy, payments were made by a legal fund, although up to a limited threshold.

⁹⁴ As a matter of fact, up to now the severance pay entitlements of construction workers enjoy a special regulation, set in the 1987 Construction Workers' Holidays and Severance Pay Act (*Bauarbeiter-Urlaubs- und Abfertigungsgesetz*), which amended the 1972 Act. Accordingly, construction workers are eligible for severance payments if they accumulated 92 weeks of work during the previous 3 years (also with different employers, on condition that the job was assigned by the Public Employment Service).

1.2 Problems related to the old system

The Austrian old severance pay involved two types of problems, which we can briefly summarise under the labels “qualitative” and “quantitative”⁹⁵.

Qualitative problems entailed undesired effects of the regulation affecting three main areas: vocational mobility, entitlements criteria and benefits distribution. Quantitative problems, instead, had to do with the general budgetary pressure stemming from social security programmes and the related political intention to reform the statutory pension schemes so to establish a multi-pillar system.

As regards qualitative problems, both at the national and the international level it was common view that the legal requirements of a minimum length of service of three years and involuntary dismissal represented strong disincentives for workers to change their employer (OECD 2001). As a matter of fact, even workers that could have the chance to move to jobs offering better wage or working conditions often decided not to leave their job, in order to save the accumulated severance payments (Klec 2007). However, this was not the only way in which the old scheme reduced labour market flexibility. Also from the employers’ perspective there were some disincentives to lay employees off when it was economically necessary, because the one-off pay-outs could lead to liquidity problems, especially for small and medium size enterprises (SMEs)⁹⁶.

Concerning entitlement criteria, legal opinion held that the loss of entitlements in case of voluntary dismissal could be questioned under EU law, and that the same loss due to summary dismissal constituted an excessive disciplinary action (Traxler 2001). Moreover, since entitlements increased in steps with the length of service in the company, employers had an incentive to fire workers before they achieved a new seniority threshold.

During the 1990s, the main Austrian labour organizations and some national experts criticized the old severance pay legislation also because of the unfair distributive

⁹⁵ Here we will concisely list them together, while in the next pages we will illustrate the different actors’ interpretations of the problems connected to the old scheme throughout the various stages of the reform process.

⁹⁶ As the WKÖ representative has explained in our interview, SMEs had seldom enough reserves for severance payments when they had to make pay-outs upon dismissal, because employers running these firms tend to think short-term, for some economic and psychological reasons (Interview 4).

framework it created. In fact, mainly due to the seniority requirements, the provisions excluded from the coverage a number of workers employed under short-term and other non-standard contracts, whose incidence on the total workforce was growing considerably. In real figures, workers who terminated an employment relationship after three or more years were a tiny minority, some 12% of the total terminated working relationships (Klec 2007). The Austrian Institute of Economic Research (*Österreichisches Institut für Wirtschaftsforschung*, WIFO) estimated that in 1997 the share of employment contracts ending before one year was 23.4%, while 71% of terminated employment relationships had a duration of one year (Mayrhuber 2000). Since seasonal workers, who could typically not meet the eligibility requirements due to the short duration of their contracts, were concentrated mainly in the tourist sector, the system was also blamed for the lack of neutrality with respect to sectoral employment (OECD 2001).

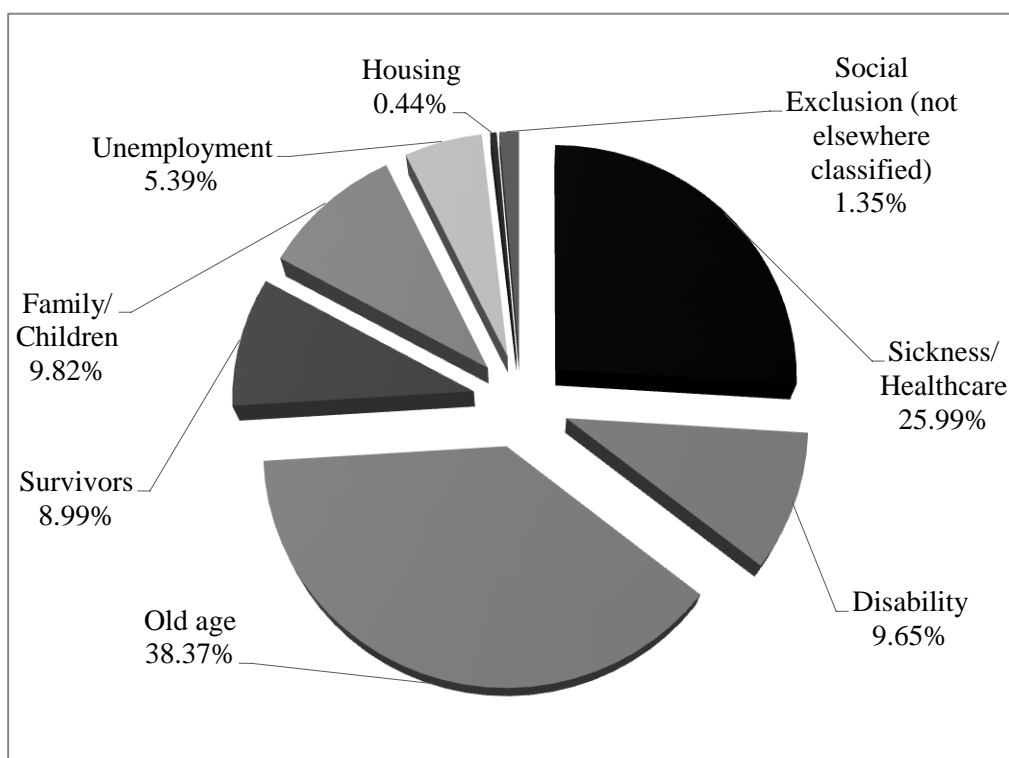
As far as quantitative problems are concerned, several policy-makers and national observers connected the debate on the severance pay reform with that on the adaptation of the public pension system, with special reference to the need to expand the occupational pension pillar. As a matter of fact, already in the 1990s public expenditures on statutory pensions had a very high incidence on the overall public expenditures in social benefits, as it is the case until today in many other Bismarckian pension systems dominated by a pay-as-you-go (PAYG) first pillar (Figure 2 in the next page).

The financial pressure stemming from the Austrian pension system was higher than in most other Western European countries. Data from Eurostat show that Austrian public expenditures for old-age pensions per inhabitant have remained among the EU-15 top-five until recently⁹⁷. This comparatively heavy burden was clear to national experts, some of whom colourfully named Austria “*a state of pensioners*” (Unger and Heitzmann 2003:378).

Against a background of mounting pressure to contain budget deficit and federal funding of the pension system, and in consideration of the age structure of the Austrian population as well as the prospective demographic changes (Knell 2005; Knell *et al.* 2006), the transformation of the severance pay scheme into a supplementary private pension was seen as a means to reduce public expenditures on statutory pensions (Obinger and Talós 2009).

⁹⁷ The last data available under the Eurostat Social Protection database (ESSPROS) refer to the year 2008.

Figure 2 - Social benefits by functions (% of total benefits), Austria, 1998



S: Eurostat, Social Protection Database (ESSPROS).

Thus, the severance pay reform issue entered the Austrian political agenda not only due to qualitative problems related to the social protection gaps of the old legislation, but also because of quantitative problems of financial sustainability and actuarial fairness of the national pension system.

2. The missed severance pay reform of the 1990s

2.1 Bipartite negotiations ended in stalemate

The inadequacy of the existing system of severance payments has been sporadically debated since the early 1990s. As the MP Westenthaler (FPÖ) recalled during the plenary session of the Parliament of the 12 June 2002, the APA press agency reported records documenting that, already in 1991, the MP Dolinschek (FPÖ) had called for a new severance pay (*Parlamentskorrespondenz* 2002b).

The initiation of a more systematic discussion on the issue dates back to the mid-1990s, when labour representatives officially included it into their political programmes. In particular, the Austrian Unions' Federation (*Österreichischer Gewerkschaftsbund*, ÖGB) came up with a set of clearly formulated demands in occasion of its 13th Federal Congress, which took place between the 17th and the 20th October 1995. Among a number of resolutions adopted then in the field of social policy, the urge of a severance pay reform was presented under the heading of a broader request of modernization of the labour law. In fact, the political programme discussed by the Congress laid emphasis on the remaining differences in legal regulations covering various categories of workers (ÖGB 1995).

The main discriminations recognized by the ÖGB in the Austrian Labour Code were between blue (*Arbeiter*) and white (*Angestellte*) collars, and between standard and non-standard (*atypische*) workers. Accordingly, these unjustified distinctions applied to several welfare schemes, not least severance payments, which were put under the top priorities for reform, and had to be removed as soon as possible. Since then, the ÖGB has been committed to the establishment of entitlements to severance payments starting from the first day of service, regardless of the way of termination of the employment contract, and increasing evenly during the employment relationship instead of being based on fixed amounts related to years of continuous service in the same company.

The ÖGB's commitment aimed at fighting two main discriminatory consequences of the existing regulation⁹⁸. On the one hand, some employers used to make their employees redundant before they reached the length of service threshold that would have made them entitled to severance payments (*tout court* or to higher amounts). On the other hand, since the entitlement to severance payments started from the third year of employment, entire groups of workers were excluded. This held true especially for people employed in industries characterized by seasonal employment as in tourism, in economic sectors making considerable use of short-term employment like retail trade or loan and insurance business, but also in industries particularly exposed to fluctuations in labour demand related to adaptation to structural change.

During the Federal Congress the unions articulated other core demands that they eventually pushed forward all along a reform process of many years (ÖGB 1995). The crucial

⁹⁸ See also par. 1.2.

requests focused on: the entitlement to severance payments also in case of voluntary resignation with appropriate notice period (*Selbstkündigung*), the transfer of payments to the employee's family upon his/her death and the extension of coverage of severance pay schemes to seasonal industries.

The latter demand has to be understood with special reference to the tourism industry. As a matter of fact, while construction (the other industry with extremely high seasonality of employment) had a dedicated regulation for severance payments since 1987⁹⁹, tourism was not subjected to a similar legislation and did not bear the costs of severance. At the same time, tourism could rely on another distributive privilege with respect to other sectors of the Austrian labour market: it could pay the same unemployment insurance premiums of other industries, due to the absence of experience rating. This implied that tourism was heavily subsidized and had no special disincentive to create large unemployment pools.

In this respect, for several years the unions had suggested to solve this uneven distribution of social protection costs by creating a severance pay fund that could grant employees in tourism an entitlement to severance payments. Entitlements would have depended on service months accumulated by working in the industry, rather than on those spent in a specific enterprise. The idea behind the proposal was to make tourism bear the costs of layoffs, in order to redistribute resources more evenly across sectors and to force employers in the tourism industry to find other ways to avoid seasonal slacks. The need for such change was seen even more urgent considering that employers had an incentive in firing seasonal employees (*Saisonbeschäftigte*) before the sixth month of employment, because after that period they became fully entitled to holiday payments and therefore more expensive (Gächter 1997). Employers operating in tourism were reluctant to accept ÖGB's proposal, which would have raised non-wage labour costs and removed a convenient element of external flexibility. However, they engaged in the discussion started by the unions despite they were not under particular political pressure¹⁰⁰, and they suggested alternative solutions to the problem of their excessive drain on the unemployment insurance system, such as

⁹⁹ As mentioned in par. 1.1, severance payments of the construction industry were regulated by the Construction Workers' Holidays and Severance Pay Act (*Bauarbeiter-Urlaubs-und Abfertigungsgesetz*).

¹⁰⁰ Labour representatives did not advance their requests on severance pay regulation through a conflictual or aggressive strategy. As for the government, it started putting pressure on social partners only in 1996-97, when it wanted them to quickly implement measures to reduce the length of unemployment spells and to reduce the massive drains of tourism on the unemployment insurance system (Gächter 1997).

reducing overtime working and redistributing working hours among employees or changing the regulation on holiday payments in order to reduce lay-offs incentives.

The latter point was taken up by the Federal Chamber of Economy (*Wirtschaftskammer Österreich*, WKÖ) when it entered bipartite negotiations with labour representatives of the ÖGB and the Federal Chamber of Labour (*Arbeiterkammer*, AK). The change of holiday regulation, a long-lasting (but never cleared) demand of business, became indeed part of the WKÖ's position towards the reform at this early stage of the process. Further interests reflected by the employers' position can be summarised as follows: make costs related to severance payments more calculable; increase flexibility in terminating contracts; make the labour market more dynamic both for employers and for employees (Interview 4).

The strategy pursued by the WKÖ during this first negotiation phase was intended to make a deal with labour by linking the severance pay reform to employers' interests in changing holiday regulation. Thus, the social partners' negotiation process on the severance pay reform was initially used by the WKÖ to try to reach an agreement on a second issue that was more in the interest of its broad membership. In particular, the WKÖ asked to replace employees' legal entitlement to the entire amount of annual statutory paid holidays after six months of employment and at the start of any further year with proportional entitlements. The aim of this proposal was to relieve enterprises from a financial burden and to avoid unnecessary dismissals before the completion of the sixth month of service (Gächter 1998).

As the ÖGB rejected the WKÖ's demands outright, opposing any attempt to change holiday regulation by connecting the issue to severance pay negotiations, the two organisations failed to reach an agreement. In order to support the achievement of a compromise for a severance pay reform proposal, the Austrian Association of Wage and Salary Earners (*Österreichischer Arbeiter- und Angestelltenbund*, ÖAAB), which is traditionally affiliated to the Austrian Peoples Party (ÖVP)¹⁰¹, took the initiative to propose a model for the new severance pay scheme. Such model clearly envisaged the transformation of severance payments into a sort of supplementary pension scheme.

¹⁰¹ The ÖAAB is the Christian Democratic interest grouping for employees. It is represented also in a part of the conservative Austrian People's Party and in a faction of the AK.

In October 1998, the ÖAAB presented its key points for reform to the social partners. The new scheme would have ideally had the following characteristics (Gächter 1998):

- Employers should have paid contributions to a pension fund; this would have started from the year 2000 and the contributory rate would have been 2.5% of new employees' pay; contributions could have been accumulated for a maximum of 25 years;
- Depending on the type of termination of the employment contract, workers could have received severance payments or left them in the pension fund: upon dismissal the employee would have been entitled to choose whether to request a lump-sum payment or to leave the accumulated money in the fund and transfer the account to the next employer; upon voluntary dismissal, instead, the account would have had to be transferred automatically to the next employer, without the option of lump-sum payments upon termination; in case of retirement, payments could have been made either through a lump-sum immediately transferable to the employee or in the form of a supplementary pension.
- The entitlement to the new severance pay scheme would have started from the 13th month of service.

The WKÖ reacted positively to the ÖAAB's proposal, although it stressed that employers' support was subjected to the condition that entitlements to severance payments were given only if the employee had worked for more than 12 months with the same employer. The demand of the WKÖ aimed to exempt from the reform the sectors affected by high labour market fluctuations (mainly tourism and retail). However, it soon encountered the ÖGB's rejection, because such provision would have de facto left unchanged the coverage gap for short-term and seasonal workers, which represented a core point of the ÖGB's position on the reform.

Disagreement between the ÖGB and the WKÖ was high also concerning the costs related to the reform. In particular, while the ÖGB asked to extend severance payments to cases of voluntary dismissal with due notice, the WKÖ posed emphasis on the need to avoid additional costs for employers and so rejected the demand outright.

Moreover, the WKÖ reiterated the condition for the achievement of a compromise on the severance pay already presented in previous negotiations: the WKÖ's demands on holiday entitlements should have been accepted by labour representatives. Not surprisingly, the

response of the ÖGB was negative on this issue: the unions were not disposed to trade severance pay changes with modifications of holiday legislation. Instead, the establishment of dedicated funds, which were meant to collect severance payments outside the enterprises, was one of the few points on which the ÖGB agreed with the other social partners.

For the rest, the ÖGB was particularly critical towards the ÖAAB proposal, especially in its very core rationale: to transform the severance pay scheme into a supplementary pension rather than keeping its supportive function during workers' transition from one job to another. In fact, in a position paper drawn up in the same October 1998, the ÖGB explained that the ÖAAB proposal implied that, for employees between the third and the tenth year of employment with the same employer, the level of the new scheme would have been lower than the existing one and thus attractive only as a supplementary pension (Gächter 1998). This question, in turn, raised some concerns among unions about the possibility that the new scheme would have replaced the traditional economic functions of the severance pay and progressively eroded the public pension system. Moreover, the ÖAAB proposal clashed with the ÖGB preoccupations on both the level of new severance payments, which was expected to grow continuously until the 25th year of employment with the same employer, and the coverage of the new scheme, which was asked to include all workers from the first day of employment (in place of the 13th month).

As a result, both the ÖGB and the WKÖ stuck to their original demands or even found new points of disagreement and the ÖAAB's attempt to accommodate the interests of both sides to strike a consensual decision on the severance pay reform proposal eventually failed.

2.2 The two reform proposals of the SPÖ-ÖVP government

To overcome the complete standstill of the social partners' negotiation process, the SPÖ-ÖVP government picked up the issue in 1999, when the ruling coalition partners submitted their respective reform proposals to the Austrian Parliament. Overall, the two models addressed simultaneously the following needs: to introduce flexibility in the labour market; to favour adjustments to higher mobility rates; and to create a second pillar in the Austrian old-age pension system by turning the severance pay into a supplementary pension

scheme¹⁰². The two proposals present differences as well as commonalities. While they both envisage a new severance pay based on a contributory system and a uniform growth of payments according to the length of service, the SPÖ's model includes ÖGB's main demands, whereas the ÖVP's model is designed in a way that brings forward WKÖ's demands and the ÖAAB's proposal, as it usually happens in the Austrian political culture (Ch. 5, par. 1.2).

The ÖVP's proposal (*Antrag 32/A(E)*) submitted to the Parliament by MP Gottfried Feurstein differs from the SPÖ one on some specific points. In particular, the ÖVP's model:

- fixes the starting date of severance pay entitlements at the first year of service. Although this represents an improvement with respect to the previous regulation, which made employees eligible only after 3 years, it also imply a considerable limitation of access to the scheme for seasonal and generally mobile workers;
- obliges employers to make contributory payments only until the 25th year of continuous employment relationship.

To the contrary, the SPÖ's proposal (*Antrag 20/A (E)*) presented by MP Friedrich Verzetnitsch provides that:

- entitlements should start from the first day of the employment relationship and thus employers should pay contributions to severance pay since then. This allows extending the coverage of the scheme to all workers regardless of the period of employment, including otherwise penalized workers, such as the seasonal ones.
- employers should pay contributions until the retirement of the worker and not until the 25th year of service. In this way, the scheme would actually bridge workers' transitions in and out the labour market.

A study of the WIFO assessed the two proposals and commented that the SPÖ's proposal would have charged employers with extra costs but also offered more security for all

¹⁰² The third goal is more apparent in the proposal drafted by the ÖVP (*Antrag 32/A(E)*), which does not provide employees with the option to get severance payments in the form of a lump-sum.

employees against the risks of unemployment and old-age (Mayrhuber 2000). The opposite applies to the ÖVP model, which certainly envisaged improvements for employees too, but tended to exclude some groups of particularly mobile workers, so to keep the costs for employers low.

These differences do not come unexpectedly, as in Austria the SPÖ has always been committed to the broad spectrum of workers' interests, whereas the ÖVP traditionally represents employers' interests, although some segments of labour find representation under the ÖVP¹⁰³ too.

Despite the confrontations on the reform proposals were brought to the Parliament, the governmental initiative did not spurred the reform, due to some contingent factors related to the Austrian political life of those days, which shifted the attention of politicians away from the issue. One of these disturbing elements was the tax reform that kept the Parliament intensively busy before the end of the legislature. The other was the approaching political elections, which were likely to be anticipated, thus putting the main parties under pressure of campaigning. Eventually, the government had no time to enact the reform before the new parliamentary elections, which took place in autumn 1999 (Gächter 1998).

3. Between continuity and change: the severance pay reform of the 2000s

3.1 The new approach of the ÖVP-FPÖ government to welfare reform

The elections held on 3 October 1999 opened up an intricate phase of negotiations among the major political parties for the formation of a new coalition government. Despite the Social Democrats (SPÖ) obtained for the tenth time in a row the highest number of seats in the lower house of the Austrian Parliament (65 seats, corresponding to the 33.2% of votes), they turned to be excluded from the government coalition. The SPÖ neither found allies for

¹⁰³ The existence of clear ties between the main interest groups and political parties in Austria is confirmed not only by the literature, but also by all the interviewees. In particular, a prominent representative of the ÖVP stated that his party quite naturally represented the interests of employers in its reform proposal (Interview 2).

a coalition government¹⁰⁴, nor managed to establish a minority government. Consequently, the ÖVP and the FPÖ (with 52 seats each, or the 26.9% of the votes) formed the new coalition government on 4 February 2000¹⁰⁵.

Several national observers agreed that the ÖVP-FPÖ coalition assumed a path-breaking approach to welfare state reforms since it took office¹⁰⁶. Despite some signs of continuity with the political experience of the 1990s, the new approach (called *Sozialpolitik neu*) placed more emphasis on budgetary concerns and the need for far-reaching changes to the national social security system. From a substantive point of view, the ÖVP-FPÖ coalition was driven by the idea of breaking up with the long-lasting Austro-Keynesian paradigm in social and economic policy¹⁰⁷, which was considered responsible of soaring up the public debt (Obinger 2001b). Paradigmatic is the slogan coined by the Minister of Finance Karl-Heinz Grasser (ÖVP) to capture the main fiscal objectives of the government, to which social policy had to be subordinated: *a good day begins with a balanced budget* (Obinger and Tálos 2009). The agenda of social and employment policy reforms presented by the new chancellor Wolfgang Schüssel in occasion of his inaugural speech at the Parliament

¹⁰⁴ The SPÖ consecutively failed to find a coalition partner, although negotiations were the second longest in the political history of post-war Austria (Müller 2000). As a matter of fact, the viable political majorities would have implied to choose an alliance with either the People's Party (ÖVP) or the Freedom Party (FPÖ). While the negotiations with the former eventually failed, those with the latter never started, because the SPÖ took the commitment not to form a government with the FPÖ, which was seen as a populist party and as a political force disregarded by the international community (Müller 2000).

¹⁰⁵ The participation of the FPÖ to the coalition government caused an interruption of foreign relations for Austria. In particular, 14 European Member States announced an unprecedented restriction of diplomatic ties with the country. It seems worth mentioning that in these elections the FPÖ gained many votes with respect to the past, under the guidance of Haider. This has been seen by national experts as a result of the political weakness of the SPÖ-ÖVP coalition of the 1990s, which entered a reform jam due to the diverging vision of the two coalition parties, with the ÖVP promoting greater deregulation and labour market flexibility and the SPÖ opposing it (Obinger 2001b).

¹⁰⁶ See, for example, Fink and Tálos (2004), Obinger (2001a), Obinger and Tálos (2006, 2009). See also *infra*.

¹⁰⁷ The Austro-Keynesian paradigm was based on a combination of a hard-currency policy to keep down inflation, an expansive demand-side policy, aimed to ensure high employment rates, and an income policy agreed among social partners in a cooperative way, which implied the containment of upward wage pressure to keep the balance of payments in equilibrium and an institutionalized role of social partnership in the economy. This paradigm started declining in the 1990s, when national macro-economic unbalances and the pressure stemming from the EU accession (1995) kicked off the introduction of supply-side measures (Obinger and Tálos 2009). Already then, the need to reduce the budget deficit to enter the EMU spurred the implementation of austerity packages (*Sparpakete*) and benefit cuts.

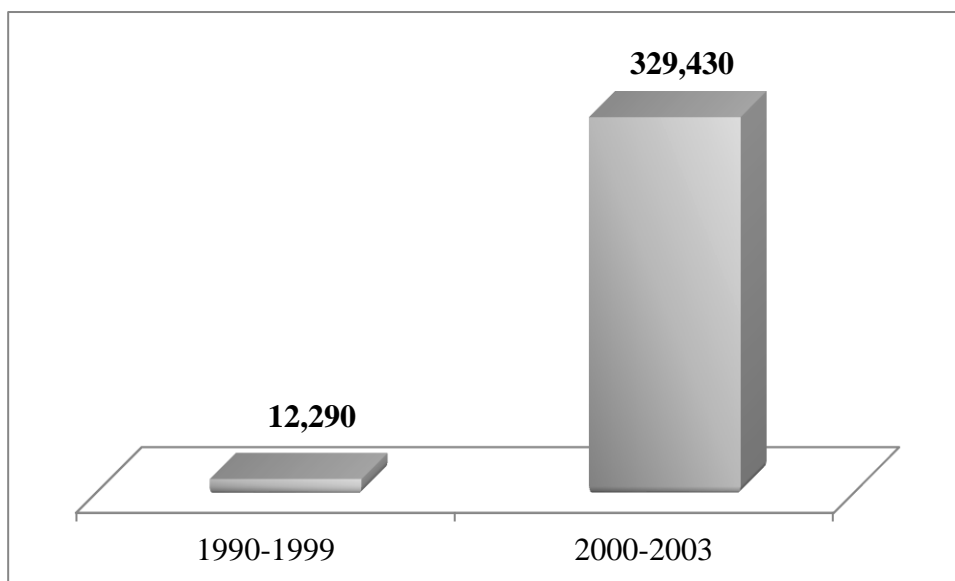
on 9 February 2000 was very ambitious. It focused on a number of neoliberal conservative issues, such as deregulation and flexibilisation of the labour market, fight against the misuse of social benefits, reduction of non-wage labour costs to boost competitiveness, and reorganisation of pensions from a one- to a three- pillar system (Government Agenda 2000). The approach to social and economic policy-making of the ÖVP-FPÖ coalition was path-breaking also from a procedural point of view. In particular, there was the manifested intention of the ruling parties to push for far-reaching welfare reforms even without the previous consensus of the social partners. Criticism concerning the obstructing role of the social partners in the process of welfare restructuring was already around in the 1990s (Crepaz 1995). However, the new government put criticism in practice, by curtailing the historical role of social partners in public policy-making and trying to reduce the informal veto power of the unions. The FPÖ was especially critical of the powerful role that the Austrian social partnership detained in socio-economic policy-making since about fifty years. Indeed, the Austrian *Sozialpartnerschaft* had been originally designed for a two-party system, whose protagonists were the SPÖ and the ÖVP, and therefore it prevented the FPÖ from becoming a third big party (Unger and Heitzmann 2003). Prominent exponents of the ÖVP were not sympathizers of social partnership procedures either. The experience of the 1990s had in fact led them to believe that the veto power of unions, then secured by the presence of the Social Democrats in the executive, had been the central impediment to necessary radical reforms of welfare provisions. For this, they agreed with the FPÖ on a reform strategy that would have pushed changes through with or without unions' consensus. The slogan *speed kills*, coined by the ÖVP's whip Andreas Khol, well captured the prevalent style of the new policy-making, which relied more on majority rule than on classic bipartite and tripartite negotiations¹⁰⁸ (Obinger 2001b; Obinger and Talós 2009).

As a consequence of the general line taken by the government in social policy, political tensions between organised labour and the two ruling parties (especially the FPÖ) grew

¹⁰⁸ However, the ÖVP agreed with the FPÖ to consult the social partners on specific aspects of the Austrian welfare system and to let them agree with each other on certain reform issues. By way of example, in the year 2000 the government set up an expert group, coordinated by Wolfgang Mazal, in charge of producing a report on inefficiencies and potential target schemes for retrenchment of welfare programmes (Mazal 2000). Social partners were included among the experts of the four working groups established at this purpose, together with public authorities and NGOs (Stückler 2000b).

until the point that the ÖGB called upon the hugest demonstrations in decades of consensual democracy and rather stable social peace. To give an idea of the intensification of social conflict under the two consecutive ÖVP-FPÖ coalition governments of the 2000s¹⁰⁹, we report the number of working days lost¹¹⁰ in the period 2000-2003 and we compare it with that of the period 1990-1999 (Figure 3).

Figure 3 - Strikes and lock-outs in Austria, total days not worked



S: ILO Database on Labour Statistics (LABORSTA).

The average number of working days yearly lost between 1990 and 1999 in Austria was 12,290, which is extremely low even when compared with the number of working days lost during the same time-span in the highly corporatist and consensus-oriented democracies of Denmark (405,860) and the Netherlands (130,304). Besides, the weakly unionized UK registered a total of 2,477,200 working days lost between 1995 and 1999; a rather high figure as opposed to the Austrian 19,245 days. During the same years, Germany, which is a

¹⁰⁹The ÖVP-FPÖ coalition was on government twice in the years 2000s, with Wolfgang Schüssel as Federal Chancellor for both times (Schüssel I, 2000-2002, and Schüssel II, 2003-2007).

¹¹⁰ The number of working days lost measures the amount of time not worked by workers involved in conflict actions like strikes and lock-outs, and it is provided by the ILO's Labour Statistics Database. This indicator allows for cross-country comparison, regardless of the size of the socio-economic systems compared, as opposed to indicators like the number of workers involved in strike actions. According to the ILO Department of Statistics, the number of days not worked is measured as the sum of the days in which work would have been normally done by each worker involved if no stoppage had taken place. We report data of the collection that follows the International Standard Industrial Classification of all Economic Activities ISIC-Rev.3.

social market economy with a model of industrial relations pretty much comparable with the Austrian one¹¹¹, reached a total of 493,378 working days lost. Nevertheless, during the first years of the ÖVP-FPÖ government, there was a clear intensification of social conflict in Austria: in 2000¹¹² the number of working days lost for demonstrations was 2,947, while in 2003 it went up to the unprecedented level of 1,305,466.

Against this background, under the ÖVP-FPÖ government the balance of power was clearly more in favour of employers' demands with respect to the past, thanks to the traditional ideological convergence between organised business and the ÖVP, and the absence of a pro-unions SPÖ in the ruling coalition¹¹³ (Pernicka 2001b). Many of the policy goals in agenda were in line with those publicly stated by the two main employers' associations. For example, the WKÖ was in favour of retrenchments to align welfare expenditures with productivity, while the IV suggested minimising state responsibility for social security by pushing individuals to increasingly rely on private provisions. Also labour market flexibility and reduction of non-wage labour costs were considered important objectives by the two organisations. However, social partnership continued to be appreciated by Austrian organised business, which did not support governmental initiatives that could be regarded as offensives to the institutional role of the unions and the social partnership model of policy-making. In this respect, a relevant example of the political behaviour of employers' representatives is the case of the reform of the Association of Social Security Providers (*Hauptverband der Sozialversicherungsträger*, HSV), to which we will also refer later. Here we give a short reconstruction of the episode, as it is useful to understand the political context of 2001, which had important effects also on the reform

¹¹¹ In spite of many similarities, it has to be added that the two corporatist models took increasingly different ways during the 1990s. Heinisch (2000) explains these divergent paths with differences in the organization of the Austrian and German corporatism, in the long-term policy strategies of unions and in the responses given by corporatist actors to modernization.

¹¹² We briefly mention that one of the key factors kicking off conflict actions in 2000 has been the pension reform. The latter was passed with the opposition of unions, which generally agreed on the need for reform but repeatedly dissented on the policy design promoted by the government. In particular, the unions saw the measure as an attempt to implement redistribution from workers to the world of business and even brought a complaint of unconstitutionality before the Court (Stückler 2000a).

¹¹³ Under the ÖVP-FPÖ government, the influence of employers' interests grew also because the Ministry in charge of social and labour issues, traditionally held by SPÖ representatives (and thus relatively more sensitive to the ÖGB and the AK's interests), was split, and the labour agenda was moved under the competence of the Ministry of Economic Affairs, traditionally held by the Conservatives (Unger and Heitzmann 2003).

process of the Austrian severance pay reform and on the behaviour of its main protagonists.

The reform of the HSV consisted in a series of amendments to the General Social Insurance Act (*Allgemeines Sozialversicherungsgesetz*, ASVG) aimed to redesign the representational structure of the body. The HSV is the central institution in charge of the administration of the Austrian social insurance system. Before the reform, it was based on the principle of self-government, which implied that social partners led the main governing bodies. This fact was heavily criticized by the government for its lack of transparency and administrative effectiveness¹¹⁴. Government amendments maintained the normal procedure, according to which the selection of the members of the HSV's governing board was based on the results of the AK's elections, but added the condition that at least one representative of each of the three most successful groups in the AK's elections had to be part of the new HSV's board¹¹⁵. Moreover, the composition of the governing board was changed too. Leading representatives of private interest organizations with power to conclude collective agreements could no longer be part of the HSV's governing board or management. On the ground of this provision, the government could remove Hans Sallmutter, chair of the Union of Salaried Employees (*Gewerkschaft der Privatangestellten*), from the position of chairman of the HSV's board of directors (Adam 2003). For the same reason, Wilhelm Haberzettl, who chaired the Union of Railway Employees (*Gewerkschaft der Eisenbahner*), could not compete for a position in the HSV's board. The unions perceived this reform as a violation of their rights, because they believed that it would have impaired the position of organized labour within the central institution of the social insurance system and no longer reflected the results of the AK's elections (Pernicka 2001a). Since the reform was also regarded as breaching the principle of self-government, workers' representatives not only organised demonstrations, but also

¹¹⁴ Government criticism was also due to the fact that many reforms of the ÖVP-FPÖ coalition failed because the chairman of HSV's board of directors and at the same time high unions' representative, Hans Sallmutter, refused to implement them (e.g. the taxation of benefits under the accident insurance).

¹¹⁵ The 2000 AK elections resulted in considerable gains for the *Fraktion Sozialdemokratischer Gewerkschafter*, the workers' group affiliated to the SPÖ. On the contrary, the *Freiheitliche Arbeitnehmer*, the group affiliated to the FPÖ, was the main loser of this electoral round. However, following the new provisions on members recruitment in the HSV's governing board, the *Freiheitliche Arbeitnehmer* obtained one seat despite the electoral defeat (Pernicka 2001a).

brought the case before the Constitutional Court¹¹⁶. Criticism came also from other quarters, because one implication of the reform was that it allowed the government to replace many members of the HSV's representation bodies with people affiliated with the ÖVP and the FPÖ (Adam 2003).

As anticipated, also employers' representatives did not support the reform. In the attempt to minimize the harm to institutionalised corporatist structures and procedures, the WKÖ chose not to side the government plan to reform the HSV, whose effect would have been the weakening of organized labour's influence in the self-administered social insurance body (and thus also in the broader social security system). The WKÖ pointed out its preoccupation that the reform could have raised the already heated tensions in the political system and compromised the functioning of social partnership (Pernicka 2001a).

Even more incisive were the later public statements of the President of the WKÖ (and representative of the ÖVP) Christoph Leitl in support of the institution of the social partnership and the traditional role of unions in it. Leitl urged the government to change its approach to the social partners in the context of a *bagarre* started after MP Hubert Gorbach (vice-chair of the FPÖ) publicly advanced the idea of abolishing the unions (Pernicka 2001b). In this occasion, the President of the WKÖ intervened in defence of the institutional role of the unions and the legitimacy of social partners' participation in the national policy process. He recalled the relevance of the *Sozialpartnerschaft* in Austrian politics, and stressed the indispensable role played by the unions in it (Pernicka 2001b). So did the President of the Republic, while the ÖVP split internally on the approach to be taken towards the social partners. Finally, in the wake of the rising spiral of conflict and the heated political dispute, during the 2001 annual collective bargaining rounds Chancellor Wolfgang Schüssel (ÖVP) recognised the strategic role of social partners (Pernicka 2001b). Nonetheless, frictions between the ÖVP-FPÖ coalition and the unions did not completely disappear.

¹¹⁶ Actually, in 2003 the Constitutional Court declared that the reform was unconstitutional, because it undermined the principle of self-government of the HSV by excluding leading representatives of the social partners from the representation structure. The Court ruled that the reform had to be overturned, either restoring the previous organization or turning the HSV into a state authority (Adam 2003).

3.2 ÖVP and FPÖ split on the severance pay

The ÖVP-FPÖ coalition decided to carry on the reform process of the severance pay started in the 1990s for several reasons. First of all, the reform of the severance pay was part of a broader plan to create a private pillar next to statutory pensions, so as to boost public budget consolidation in the long-run and make redistributive adjustments within and between generations, in view of demographic changes and growing labour market segmentation (Obinger and Talós 2006, 2009; Government agenda 2000). Secondly, the government aimed to extend eligibility and remove restrictions to labour mobility, in response to both the long-standing dissatisfaction of the main Austrian socio-economic actors and the criticism of experts concerning the status quo¹¹⁷. The existing system was contested especially for the conditions that determined the loss of severance pay entitlements, namely: voluntary resignation of the employee (except in case of retirement); and a length of service with the same employer inferior to three years. These conditions were deemed responsible of inhibiting mobility and considered unacceptable from a legal perspective. On the one hand, they created a tie to the employer that was in conflict with EU law (Traxler 2001); on the other hand, these provisions rendered the severance pay a sort of elitist scheme, since it was calculated that by 2000 they made eligible for benefits upon dismissal only the 12% of all dependent workers (Mayrhuber 2000). The last consideration to understand the inclusion of the severance pay reform in the political agenda refers to the commitment taken by the ÖVP in the previous coalition government. Indeed, the idea of transforming the severance pay into a supplementary pension scheme was contained also in the ÖVP's proposal brought to the Parliament in 1999 (Antrag 32/A (E)).

The unions forcefully opposed the governmental plan to replace the traditional function of severance payments (i.e. to bridge the transition between jobs) with that of supplementary pensions. The income maintenance function of severance payments in case of unemployment was considered indispensable by the ÖGB, against a scenario of increasing labour market instability and growth of career breaks. Moreover, the ÖGB believed that the development of supplementary pensions could have undermined the existing statutory

¹¹⁷ By the early 2000s, the broad lines of criticism in the national debate became notorious also at the international level. See by way of example OECD (2001).

pension system, based on the regular taxation of incomes (Adam 2002b). For this, during the policy-making process the ÖGB asked to provide employees with the possibility to obtain severance payments upon termination of the employment relationship.

The government was reluctant to include this option into the new legislation and rather supported the introduction of a compulsory occupational pension scheme, based on severance pay investments in the private capital market. However, disagreement between the two coalition parties on some details of the new severance pay design prevented the government to push the reform on independently from social partners' positions, as predicated by the new approach (par. 3.1). In fact, while the FPÖ and the ÖVP generally agreed on the broad lines of reform, already in 2001 they split on some details of the legislative draft. In particular, the FPÖ opposed the ÖVP's proposal to subject severance pay entitlements to a minimum length of service with the same employer of one year, because this would have implied the exclusion from coverage of several segments of workers (especially the seasonal ones). Interestingly enough, FPÖ's position on the issue was not only shared by opposition parties like the SPÖ and the Greens, but also in line with the one taken by the AK and the ÖGB. This accidental convergence of position between the FPÖ and its political opponents can be better understood by looking at the broader political context. In particular, while the ÖVP wanted to introduce conditionalities to severance pay entitlements to reduce the burden of contributory payments for the employer, the FPÖ wanted to appear as the supporter of workers' interests for strategic necessity. In fact, the FPÖ had lost many votes at the provincial and municipal elections of 2001, and so it needed to re-gain the consensus of its core electorate. During the 2000 electoral campaign the latter had been the worker of the base – emphatically called the *ordinary man (kleiner Mann)* – against the big organised interests. However, this part of the electorate showed growing disaffection to the party, because the action of the latter after the elections had increasingly focused on welfare retrenchments, whose costs typically fell on the *ordinary men* rather than on other social groups. As a consequence, the FPÖ opted to push for the inclusion of all workers under the new severance pay scheme.

As this internal controversy was leading the severance pay reform in a new deadlock, in autumn 2001 the ÖVP-FPÖ government decided to avoid further interruptions of the policy process and urged the social partners to come up with a consensual proposal for the legislative draft. The request came in a time of mounting political tensions between

organised labour and the ruling parties, mainly triggered by the episode of the HSV reform (par. 3.1). There was the possibility that major reforms envisaged by the government could have eventually been blocked by the aggressive oppositions of the unions, which were in the street every Thursday, as colourfully explained by one interviewee (Interview 2). Moreover, the social partners were confronted with a mix of common and divisive interests concerning the severance pay. Despite these premises, the reform process did not enter a stalemate for the nth time, as we will see in the next paragraph.

3.3 Social partners' compromise on the new severance pay

When the social partners went back to bipartite negotiations in October 2001, their positions towards key aspects of the new severance pay had practically remained unchanged from the 1990s.

On 19 October 2001, the ÖGB and the AK jointly drafted a document, in which they restated most of their past demands (*ÖGB/AK Reformpapier Fassung 2001*). Accordingly, the position of organised labour can be summarised as follows:

- The new severance pay had to cover all workers;
- The new legislation had to apply to new employment contracts only¹¹⁸;
- Entitlements had to be extended to cases of voluntary dismissal and start from the first day of the employment relation¹¹⁹;
- The level of payments had to grow progressively;
- A dedicated fund, external to the companies, had to collect employers' severance pay contributions;
- The fund had to grant high safety standards.

¹¹⁸ For already existing employment contracts the ÖGB asked to allow a transfer to the new system only when no losses of current entitlements were implied and upon employee's consensus.

¹¹⁹ These demands were legitimised also by workers' vote. In fact, between 24 September and 25 October 2001, the ÖGB balloted its 1.44 million members on various issues, such as whether to strike against the general approach of the government to organised labour and welfare reform, or which positions to take with respect to single reform proposals (Pernicka 2001b). Concerning the severance pay, the results of the ballot implied that the ÖGB had to ask for entitlements starting from the first day of employment and covering all workers, regardless of the way of termination of their employment contract.

The position of employers had not changed much from the 1990s either. The core policy goals defined by the WKÖ were (Klec 2007):

- The reduction of non-wage labour costs, especially for companies with a significant share of employment contracts of long duration, which faced higher severance pay costs than other companies;
- The removal of restrictions on the termination of employment contracts;
- The removal of lump-sum payments upon termination of the employment relationship, especially to avoid liquidity bottlenecks for small and medium enterprises;
- The removal of future severance pay obligations from the liabilities in the balance sheet, especially to boost competitiveness of companies operating on the international market, which entertained relations with foreign companies not subjected to this practice.

There were also a few converging goals among social partners. One of those was to reform the severance pay regulation so that the amount of related litigations could be reduced. As a matter of fact, many were the fired employees that used to bring their employers before the court to have a judgment on the ‘just cause’ nature of their dismissal, in order to avoid the loss of severance pay entitlements (Klec 2007). Besides, both workers and employers’ representatives acknowledged economic change and the need for more flexibility in some aspects of labour market regulation, one of which was indeed the severance pay legislation¹²⁰.

Despite the many divisive interests concerning the design of the new severance pay scheme, at the government’s invitation the social partners found a compromise with a speed that surprised many national observers (Pernicka 2001c). Already on the 22 October 2001, the AK, the ÖGB and the WKÖ¹²¹ signed a joint proposal for the legislative draft, in

¹²⁰ Although Austrian unions have been critical towards increasing flexibility (Talós 1999), they have generally been more oriented to help workers coping with, rather than preventing, labour market flexibility.

¹²¹ The IV did not sign the document because it did not directly push forward its political demands. This behavior is in line with what anticipated in Ch. 5 concerning the fact that IV’s social policy positions are normally coordinated by a special committee and channeled into the WKÖ. The representative of the IV we have interviewed has explained the strategy of the IV by stressing that in bipartite negotiations between the unions and the management there is great solidarity among

which they listed 14 key points for reform (*Sozialpartnereinigung* 2001). The document was submitted to the government the next day.

The agreement laid down in the joint reform proposal resulted from a negotiation process in which all actors were engaged in interest accommodation with a problem-solving attitude. Contrary to the bipartite negotiations of the 1990s, this time unions and employers' representatives traded some of their member interests in order to achieve a consensual compromise on the key aspects of the new severance pay. They managed to do so despite at the beginning of the negotiations they still had divergent views concerning the imprinting to give to the new scheme.

In particular, on the one hand workers' representatives promoted a scheme that maintained the function of income support during workers' transition from one job to another. On the other hand, employers' representatives wanted new severance payments to finance the development of private pension schemes. In fact, the promotion of supplementary pensions was in the general interest of Austrian business for at least two reasons (Interview 4). First, in the long run supplementary pensions would have allowed unburdening national public expenditures, thus lowering fiscal pressure. Second, the establishment of private pension schemes would have contributed to the development of the Austrian financial and insurance sectors by shifting the management of severance payments from companies and social insurance providers to external funds run by private operators.

To overcome these divergences, the AK, the ÖGB and the WKÖ agreed to let the claimant choose how to use severance payments. The severance pay system envisaged by the social partners' agreement was contributory-based, and employers' contributions had to be collected by a central fund. The fund had to be separated from the one collecting statutory pension contributions, in order to ensure greater transparency and security of transfer payments. From the fund payments had to be re-directed to a private fund, chosen by the employee together with the employer. To keep the original function of income support during employment transitions, the agreement provided that employees dismissed after three years of service with the same employer could decide to withdraw the entire amount of the severance pay when leaving the company. Alternatively, employees could opt for keeping payments in the selected fund as private savings for their future pension.

employers' groups. In case of dissimilar interests, issues are discussed within the organisation and in meetings with other employers' groups in advance, so as to reach a unitary position (Interview 5). The representative from the WKÖ has confirmed that there was no conflict between the positions taken in this occasion by the two employers' organisations (Interview 4).

The other sensitive matter of contention between workers and employers' representatives was the cost of the new severance pay for employers. On the one hand, workers' representatives asked to let severance payments start from the first day of the employment relationship and cover all workers, regardless of their working contract and the way the employment relationship was terminated. This request reflected organised labour's long-lasting goal of extending the coverage of the new scheme to previously excluded categories of private sector employees, such as seasonal workers (*saisonbeschäftigte*), short-term workers, apprentices, and employees giving voluntary resignations. On the other hand, the WKÖ linked its consensus to the establishment of relatively low contribution rates for employers and the exemption from severance payments of some of its members, i.e. employers in sectors characterised by high labour mobility and seasonal work, such as tourism and retail, which had almost never made severance payments under the old legislative framework. During bipartite negotiations employers' representatives remained firm on their objective of cost containment, and enacted a number of strategies to achieve this goal. At different stages of the negotiation process, the WKÖ asked to phase the companies of the sectors with high labour mobility into the new severance pay system more slowly. As workers' representatives rejected this demand, the WKÖ tried to ask directly the government for some form of compensation for employers operating in such sectors, who would have been forced to sustain the new costs of severance payments if the reform was passed in the way proposed by organised labour (Interview 4). Subsidies were asked also for SMEs, although this was not a core position of the WKÖ, but eventually the government denied any form of subsidy for firms (Interview 4). Interestingly enough, the WKÖ asked the government for compensations rather than for a diversified fiscal treatment among firms of different size and/or economic category. Indeed, the latter strategy would have not been sustainable for the WKÖ, because it would have overloaded its capacity to balance the heterogeneous interests of its membership. As the WKÖ represents nearly all companies in Austria, when it cannot achieve the same advantageous deal for all members, it must try to treat them at least in a just, fair way (Interview 4).

Despite the WKÖ failed to obtain compensations for the parts of its membership that would have turned to be the losers of the reform, it nevertheless managed to accommodate labour's demands with its interests. At the end of bipartite negotiations employers' representatives accepted the requests of the ÖGB and the AK, but they secured a moderate contribution rate for employers in return. In fact, they supported the proposal of organised

labour as soon as it became clear that employers' contributory rate resulting from negotiations would have been much lower than the one calculated some years earlier during the previous bipartite negotiations (1.5387% against the 2.5% proposed by the ÖAAB model of the late 1990s). Given that, the WKÖ saw that the deal was a fair one, even though payments would have started from the first day of the employment relationship for any category of employee in the private sector (Interview 2; Interview 3; Interview 4).

Another old request of Austrian organised labour entered the final joint reform proposal: severance payments had to increase continuously until a length of employment with the same employer higher than that of the old scheme (45 years instead of 25, which went down to 37 during the subsequent phases of the reform process). Moreover, some provisions contained in the final document signed by the social partners reflected their converging aim not to alter the redistributive status quo for those already covered by the previous system. In this respect, the joint reform proposal established that existing severance pay entitlements had to remain unchanged, unless individual workers and their employer agreed in the employment contract to pass from the old to the new severance pay regulation¹²².

The capacity of the AK, the ÖGB and the WKÖ to finally find a compromise on the new severance pay system and quickly list shared key points for reform was regarded by some commentators as a sign of life in the Austrian social partnership (Pernicka 2001c). However, the influence of the WKÖ, the ÖGB and the AK in the severance pay reform was put under discussion during the parliamentary process, especially as far as the ministerial draft that followed the social partners' joint proposal is concerned. We expand on this in the next paragraph.

3.4 The 2002 parliamentary phase

The reform proposal signed by the AK, the ÖGB and the WKÖ (*Sozialpartnereinigung* 2001) became the point of departure for the ministerial draft that was submitted to the

¹²² Our interviewees have variously stressed that the condition of exempting existing employment contracts from the new severance payments was necessary to achieve a compromise whatsoever (Interview 3; Interview 4).

Parliament on 20 March 2002 (*Gesetzentwurf* 309/ME). Yet, the severance pay model that emerged from the draft differed substantially from the one proposed by the social partners. The latter regarded the difference as a risk to the social acceptance and the successful implementation of the new regulation, and therefore undertook a unified political action. Then, besides the respective position on the draft of each main labour and employers' organization (e.g. *Stellungnahmen* 10/SN-309/ME and 25/SN-309/ME), on 25 April 2002 the government received also a joint position paper of the AK, the ÖGB and the WKÖ (*Sozialpartnerpapier* 2002). The document signed by the three associations listed the crucial points that were missing in the draft and needed to be included instead. Among the main demands, the social partners asked the following:

- corrections of calculations for severance pay contributions;
- the collection of severance pay contributions had to be done through the broader framework of the health insurance funds;
- a more gender-neutral definition of benefit claims;
- a more favourable tax treatment (e.g. severance payments had to be income tax free).

The joint position paper interestingly shows that both employers' and workers' associations agreed to urge the government to regulate certain specific issues by law and to replace the provisions introducing some differential treatments among companies and their employees with uniform legislation. In this regard, two social partners' common positions can be considered particularly significant:

- Social partners were unitary against the ministerial draft provision that let the contribution rate be defined in a general collective agreement, while fixing it at the level of 1.53% for workers not covered by such an agreement. They maintained that there was no objective reason to refer to a collective agreement instead of regulating the contribution rate by law.
- Social partners asked to define by law the destination of severance pay transfers, in order to remove difficulties of implementation for small and medium enterprises. In fact, for private sector companies with works councils (those with five or more employees) the ministerial draft provided that the choice of a private fund for severance

payments had to be done by means of an employment agreement. However, small enterprises with no works councils had to enter a more complicated selection process: if one third of employees had rejected the employer's choice, the employer would have had to suggest another private fund.

After a period of internal debate, the ÖVP-FPÖ coalition government endorsed the crucial points presented by the social partners, drew up the reform bill and submitted it to the Austrian Parliament on 4 June 2002 (*Änderung* 1131/2002). On 6 June 2002 the Labour and Social Affairs Committee convened a hearing with experts including analysts, social partners and party representatives, who examined and took a position on the new severance pay scheme emerging from a total of four items: the reform bill; the two reform proposals drafted under the previous ÖVP-SPÖ government (*Anträge* 20/A (E); 32/A (E))¹²³; and a petition presented on 5 September 2001 to the Labour and Social Affairs Committee by the MP Kurt Gartlehner (*Petition* (34/PET)).

For organised business the only representative present at the hearing was Martin Gleitsmann from the WKÖ. He expressed employers' satisfaction for the fact that the government bill took up most of the points agreed between labour and employers' representatives (*Parlamentskorrespondenz* 2002a). He also stressed the importance of a passage to a contribution-based system of severance payments and maintained that a moderate contributory rate was fundamental to avoid the cost difficulties that had burdened enterprises in the past. Also Bernd Marin, from the European Centre for Social Welfare Policy and Research, praised the idea of shifting to a contribution-based system, but he expressed some criticism concerning the fact that social partners had not managed to decide once for all whether the severance pay had to become a supplementary pension or not. The ÖGB's representative, Bernhard Achitz, raised some criticism too, particularly in relation to the transitional rules contained in the bill. He expressed the view that, in the absence of an appropriate transitional law, the new regulation could have pushed certain employers to put pressure on their employees to pass from the old to the new severance pay scheme.

¹²³ The proposal 20/A (E) was presented on 18 November 1999 by SPÖ's MPs (among them: Friedrich Verzetnitsch, Anne Marie Reitsamer, Rudolf Nürnberger, Peter Kostelka, Heidrun Silhavy, Franz Riepl, Sophie Bauer, Otto Pendl, Günter Kiernan and Rainer Wimmer), whereas the proposal 32/A (E) was presented the same day by ÖVP's MPs (among them: Gottfried Feurstein, Werner Fasslabend and Günter Puttinger).

The position of the ÖGB was later taken up by the SPÖ, which presented a proposal for amendments to the reform bill. The proposal, submitted by MP Heidrun Silhavy, was eventually rejected during the 106th Plenary Session of the Austrian Parliament (*Stenographisches Protokoll der 106. Sitzung des Nationalrates der Republik Österreich*), which took place on 12 June 2002. During the session, the Parliament adopted only the amendment proposal by Sigisbert Dolinschek (FPÖ), Walter Tancsits (ÖVP) and Friedrich Verzetnitsch (SPÖ), which brought only minor changes to the reform bill approved by the Committee.

With respect to the Plenary Session, it is interesting to notice how the parliamentary debate quite often went on the indispensable role of the social partners for the establishment of the new severance pay. For example, in open criticism of the ÖVP, some SPÖ representatives maintained that the reform was indeed merit of the social partners: MPs Csörgits and Horn emphasised that the continuous pressure of the ÖGB and the AK for changes to the old severance pay scheme was crucial; MP Dobnigg stressed the problem-solving skills of the social partners that had even prevented internal disruption between the ruling parties on the reform; MP Verzetnitsch recalled that if the Parliament had endorsed the ÖVP reform proposal of 1999 there would have no longer been a severance pay scheme, but only a private pension fund; and MP Silhavy thanked the ÖVP for accepting most of the social partners' key points on the reform (*Parlamentskorrespondenz* 2002b). Also exponents of the ruling parties acknowledged the importance of the supportive joint action of the social partners for the success of the severance pay reform (*Parlamentskorrespondenz* 2002b).

However, some coalition representatives were less inclined to praise the contribution of the social partners, especially those from the FPÖ. By way of example, against MP Verzetnitsch's attempt to glorify the role of organized labour, MP Dolinschek (FPÖ) lamented that the social partners became active in the political process at a very late stage and that the reform failure of 1999 provided evidence that only the entry of the FPÖ in the government had made the reform possible. To the same token, MP Pumberger (FPÖ) criticized the way the ÖGB handled the reform, while MP Haller (FPÖ) stated that the new scheme represented a proof of both the functioning of the social partnership and the political force of the federal government.

After the parliamentary debate, at the third reading of the plenary session the reform bill of the new severance pay system was finally endorsed without further changes.

4. The new severance pay

The old severance pay system was changed through amendments to the Employees' Severance Pay and Pension Fund Act (*Betriebliches Mitarbeitervorsorgegesetz, MVG*), which came into effect from 1 July 2002. The new severance pay (*Abfertigung neu*), applies to all private employment contracts concluded from 1 January 2003 onwards, leaving the previous employment relationships in principle unaffected, as asked by the social partners in their fourteen reform points (*Sozialpartnereinigung 2001*). However, under certain conditions provided by law, workers covered by contracts stipulated earlier than 1 January 2003 can pass under the new regulation. In particular, both the employer and the employee must agree on the passage from the old to the new regulation, a condition which has been considered a shortcoming of the reform by organized labour, together with the Greens and SPÖ's representatives¹²⁴.

An achievement of the labour side is that under the new regulation, the employer must pay contributions from the second month of an employment relationship until its end, thus including previously excluded short-time employees and seasonal workers among the beneficiaries. Instead, the contributory rate has been fixed at the level of 1.53% of the employee's gross salary to meet WKÖ's demand not to charge with a financial burden employers' non-wage labour costs. As a matter of fact, the issue of the contribution rate was not negotiated at the governmental level: the decision was reached during social partners' bipartite negotiations between Christoph Leitl (WKÖ) and Friedrich Verzetnitsch (ÖGB) (Interview 2).

The reformed severance pay can be called "new" (*Neu*) especially because it replaces direct payments from the employer to the employee (upon termination of the employment relationship) with a kind of "rucksack-principle" (Interview 5), according to which employer's contribution payments are saved into one of the specially created provision funds (*Mitarbeitervorsorgekassen, MVK*) so that workers can take the money with them in the transition between one job and another. The new severance pay transfers have to be made to one of the dedicated MVK funds, according to the principle "one employer, one

¹²⁴ Nevertheless, experts have argued that, due to the unsatisfactory nature of the transfer provisions, a few contracts covered by the old legislation have eventually passed to the new rules (Klec 2007).

fund” (Klec 2007). The funds are joint stock companies (mainly owned by banks, insurance companies and pension funds), which are in charge of investing money in the private capital market, on the one hand, and of making payments to employees, on the other. The collection of severance pay contributions from firms, instead, is left to the Austrian public insurance fund that collects all other social security contributions, as requested in the joint statement of the social partners. It is the public fund that then transfers severance payments into the employee’s private account of the chosen MVK¹²⁵.

Being on a for-profit basis, MVKs are allowed to charge operating fees. For example, they are entitled to apply: 3% fee on transfers from the old to the new severance pay scheme; 3.5% administrative fee on annual severance pay contributions; additional fees on severance pay contributions for management; etc. Each MVK must apply the same fee treatment to all contractual partners, so that there is no differentiation of rights among groups of employees. The supervisory board of the MVK includes two ÖGB’s representatives who check for the security and transparency of the management of workers’ money. Still, the fund keeps the majority of its representatives in the board (four in total).

As the MVKs carry the amount of severance payments over in case of voluntary dismissal, the type of termination of the employment relationship does not affect entitlements any longer, except for the fact that the severance pay cannot be paid directly to the employee until the next involuntary dismissal or at latest at the time of retirement (Klec 2007). Apart from the condition of involuntary dismissal, the employee must have accumulated three years of severance pay contributions (also from different employers) to receive the sum from the MVK. The pay-out is granted by law at the nominal level of the contributions saved in the employee’s MVK account, and not at a specific amount as in the previous system. Alternatively, provided that eligibility for payments is fulfilled, the employee can decide to leave the money in the fund, or to transfer it to either another MVK or to a pension fund. The tax regulation seems to favour this latter option. This because gains from MVK’s investments in the capital market and capital transfers from one fund to another (including pension funds), as well as employer’s contributions, are tax-free, whereas pay-outs are taxed with a 6% flat-rate.

¹²⁵ The choice of the MVK is relevant, because only the nominal contributions per employee are granted by law and thus the annual net yield from MVK’s investments is crucial for employees’ revenues.

In case eligibility conditions for pay-out are not met, the MVK keeps carrying over the money. The new legislation provides also exceptional conditions of entitlement in case the beneficiary has been out of the Austrian labour market since five years for various reasons (e.g. the employee went to live abroad or on childcare leave). Anyhow, the capital accumulated through severance payments never go back to the employer, contrary to what envisaged by the previous regulation.

The new Austrian severance pay has attracted the attention of several international experts immediately after its entrance in force. Overall, they have referred to it as path-breaking and unique in the landscape of Western political economies. They have especially praised the fact that it has increased labour market flexibility mainly in two ways: by removing the potential obstacles of the old system to workers' dismissal as well as to self-chosen mobility; and by generally reducing the costs related to the termination of the employment contract from both the employers' and the workers' side¹²⁶. Besides, the new system has been regarded as an improvement of income security for employees that need to switch from one job to another, because the capital accumulated through severance payments is always granted to the worker, either as a payable sum or as a supplementary pension for the future. International experts' emphasis on the simultaneous enhancement of labour market flexibility and security has soon made the Austrian severance pay an example of flexicurity, i.e. a policy mix addressing flexibility and security objectives at once¹²⁷. So, for example, in the 2003 report of the employment taskforce chaired by Wim Kok, which was meant to assess policy developments across EU's member states in relation to the objectives of the Community's Lisbon Strategy, the new Austrian severance pay is cited as a best practice for facilitating workers' transitions on the labour market, together with the

¹²⁶ As a matter of fact, experts find that one of the advantages of the new severance pay scheme is the possibility for employers to turn unpredictable dismissal costs at the time of recruitment into costs that can be predicted at the time of firing, thanks to the savings accounts system. Advantages are seen also for employees, because the new system, in contrast with the previous one, prevents workers from losing their entitlements if they opt for voluntary dismissal.

¹²⁷ The term *flexicurity*, firstly coined by the Danish prime minister Poul Nyrup Rasmussen to depict the Danish labour market reforms implemented under his government in the 1990s, is now part of the European jargon and frequently mentioned in the context of the European Employment Strategy (see e.g. 2001 European Employment Guidelines) and in the broader European debate on how to reform social security to meet contemporary economic, demographic and social challenges (see e.g. European Commission 2007). Security is understood as employment security rather than job security, that is, the security related to employment transitions and not to workers' protection from dismissal.

Swedish career transition agreements and the Belgian national collective agreement on time credit for employment interruption up to one year out of the entire career (Kok 2003). In the same period, the OECD wrote that the Austrian severance pay reform was outstanding with respect to all the other reforms affecting employment protection legislation in the West. The OECD has explained that the Austrian reform has reversed the general philosophy of the existent system rather than simply relaxing or tightening some of the existing regulations¹²⁸ (OECD 2004). Moreover, Austria is mentioned as the only OECD country that reformed the severance pay legislation by transforming it into a system of individual savings accounts that support income smoothing for the employees while reducing the strictness of job protection legislation. Further, in the Green Paper *Modernising labour law to meet the challenges of the 21st century* (European Commission 2006a)¹²⁹, the European Commission compares the Austrian new severance pay scheme with the 1999 Dutch Flexibility and Security Act, and praises it as an example of measures supportive of employment transitions, achieved thanks to a process of social dialogue¹³⁰. Nevertheless, the opinion of national observers is less clear-cut, because they maintain that the new policy design of the Austrian severance pay shows lights and shadows with respect to the actual enhancement of flexibility and security elements. To start with the introduction of greater flexibility in the labour market, according to national analysts, the reform clearly contributes to increase self-chosen mobility, as employees do not lose their entitlements upon voluntary dismissal any longer. From the employers' perspective, instead, the benefits with respect to the previous policy are less obvious. On the one hand, especially SMEs have gained from the reform in terms of external flexibility (Klec 2007), because the contribution-based system avoids that employers pay the full cost of severance payments at once upon firing; by doing so the new system prevents liquidity problems for enterprises in hard times (e.g. if they are suddenly forced to lay-off a considerable number

¹²⁸ “Overall, few countries have undertaken significant reforms to the regulation of permanent employment. With the exceptions of Austria and New Zealand, these reforms mainly consisted in relaxing procedural requirements and/or reducing difficulties of dismissal” (OECD 2004:73).

¹²⁹ The purpose of the Green Paper (European Commission 2006a) was to launch a debate in the EU on how labour law could be adjusted to enhance workers and companies' adaptability to new economic challenges, in order to support the achievement of the Lisbon Strategy goals of sustainable growth, more and better jobs, labour productivity and social cohesion.

¹³⁰ Shortly before the Green Paper, the European Commission had already reported on the Austrian severance pay reform in the publication *Employment in Europe 2006* (European Commission 2006b). Here it was mentioned in relation to the establishment of a system of individual savings accounts that could inspire reforms aimed to replace traditional unemployment benefit systems with individual unemployment accounts (European Commission 2006b:80).

of employees). This also implies that workers employed in this kind of firms enjoy lower job security than before. On the other hand, the enhancement of external flexibility is less striking when one considers two aspects of the reform. First, as entitlements grew with the length of service in the old system, employers were aware that they would have had to pay higher sums to employees the longer they wanted to keep them. So, to some extent the rationale of the old severance pay already worked as a disincentive to tie workers to the company. Second, the new system directly applies only to employment contracts stipulated from the 1 January 2003 onwards. This means that enterprises with older employment relationships are not immediately affected by the change, unless the employer and the employee agree on a switch to the new system.

Flexibility for employers has certainly increased as far as cost-planning is concerned. In particular, depending on the type of business, the gains in flexibility obtained by employers assume a different form. As mentioned earlier, SMEs have now the advantage to avoid liquidity bottlenecks caused by one-off pay-outs. Companies competing on the international market enjoy the fact that they do not report severance pay liabilities in their balance sheet and thus they can better equilibrate the relation of liabilities and equities in their own favour (Klec 2007). Also firms employing workers with long-term contracts benefit in terms of inferior costs with respect to the previous system. However, as regards cost differentials, the reform produced losers too, namely firms operating in sectors with high turnover rates and low employment stability (e.g. tourism sector). In fact, under the old regulation, these rarely had to make severance payments, as their employees seldom managed to fulfil eligibility requirements in terms of length of service with the same employer.

As regards security improvements brought by the reform, the central achievement appears the extension of coverage to many forms of employment previously excluded from severance payments, with special reference to non-standard work. Apart from employment relationships that end before the first month, all other private sector contracts stipulated from the 1 January 2003 onwards are covered by the new system, including the traditional outsiders¹³¹. Despite many older contracts do not fall under the new legislation, the number of workers entitled impressively increased after the reform entered in force. A study by

¹³¹ For example, short-term workers, apprentices, etc. Since 2010, also *Freie Dienstnehmer*, a group of workers whose status stands between employment and self-employment, are covered by the new severance pay.

Hofer (2007) estimated that by 2007 up to 2.3 million persons acquired claims in the *Abfertigung neu*.

In case of voluntary dismissal, financial security is higher in the new system than in the old one, as entitlements are not lost. However, the worker does not immediately benefit from severance payments upon resignation, as the capital of the severance pay remains on his MVK account and cannot be paid out. The same situation applies to those employees who decide to keep severance payments in the private fund as a sort of supplementary pension.

Instead, financial security has decreased with respect to the old system as far as the generosity of benefits is concerned. In this regard, a study by Koman, Schuh and Weber shows that the level of claims in the new severance pay is lower on average (Koman *et al.* 2005)¹³². This is because the new system calculates the level of severance payments on the basis of an annual net yield, derived from investments of employers' contributions on the capital market, that analysts and policy makers have originally estimated at a too optimistic annual level of 6%. As the contributory rate has been decided accordingly, the resulting level of severance payments under the new system can reach the level of payments of the old scheme (fixed by law depending on the length of service) only after 37 years of employment (Koman *et al.* 2005).

Another aspect of the reform that national experts have put under discussion relates to the transparency of the new regulation. In particular, on the one hand the new legislation disincentivises two types of employers' misbehaviours aimed to circumvent severance payments, which were connected to the old entitlement conditions. The first was mobbing, exercised by some employers to induce workers to resign voluntarily. The second consisted in trying to justify dismissal through *just cause* even in its absence; a practice that kept labour courts considerably busy because then employees often issued their employer (Klec 2007). On the other hand, national experts have pointed out that the new legislation is troublesome concerning the transparency of MVK's investments made out of severance pay contributions. The new regulation, in fact, indirectly creates a trade-off between the security of the capital accumulated on MVK's individual savings accounts and the profitability of severance payments investments in the stock market, which is higher, the higher the capital risk. As a partial solution, the new legislation obliges the MVKs not

¹³² Koman *et al.* (2005) compared the effect of the two severance pay schemes on a cross section of job spells of different durations assuming no voluntary dismissals and without observing the entire employment career of individuals.

to invest in the stock market more than 40% of the total capital, while the nominal amount of the severance pay is granted by law.

In addition, Austrian observers have reported several shortcomings concerning the implementation phase. In particular, the implementation of the new scheme was initially at risk because of the lack of transparency in the regulation of the MVKs (Adam 2002b). Shortly before 1 January 2003, some implementing decrees were still lacking. As more, the MVKs were also asking for amendments to almost half of the paragraphs of the new legislation. As a consequence, most of the funds were not able to provide employers with clear cost calculations related to administrative fees. Also, estimating net annual interest rates from the investment of severance pay contributions was problematic. Hence, the choice of the destination fund for severance payments was largely delayed (Adam 2002b; Klec 2007).

The issue of the net annual interest rate was targeted by criticism even during the reform process. In fact, experts maintained that the 6% rate estimated during the 2001 social partners' negotiations was unrealistic, and that it could have reached a maximum level of 3-4% (Pernicka 2001c; Adam 2002a; 2002b). Later, criticism came also from the labour quarters, which lamented that the agreed contributory rate of employers, calculated on the basis of the foreseen interest rates, was so low that in the end the amount of payments under the new scheme would have been lower than that reached under the old system¹³³.

For all the aforementioned reasons, national experts and actors have carefully remarked that the *Abfertigung neu* presents both lights and shadows in relation to the simultaneous enhancement of flexibility and security in the Austrian labour market. Table 7 in the next page displays them synthetically. Nevertheless, many acknowledged that the new severance pay has represented a considerable break with the previous system and can be seen as a successful example of labour market and social policy modernization, even though it is not immune from shortcomings¹³⁴.

¹³³ For example, during the hearing with experts on 6 June 2002, a representative of the AK (Otto Farny) asked the government to raise the contribution rate, because the level of severance payments regulated by many collective agreements under the old system was higher than that resulting from the application of the 1.53% interest rate.

¹³⁴ See, e.g. the declarations reported in *Parlamentskorrespondenz* (2002b) or ÖGB (2002).

Table 7 - Elements of changed labour market flexibility and security

		LIGHTS	SHADOWS
SECURITY	Financial security	<p>Extended coverage</p> <p>Non-standard workers also included (short-term and temporary workers; apprentices; since 2010 also the so-called <i>Freie Dienstnehmer</i>)</p>	<p>Employment relations shorter than one month excluded</p> <p>Mixed distributional effects (more persons entitled but lower level of payments)</p>
	Employment transition	<p>No longer loss of entitlements upon voluntary dismissal</p>	<p>Decreased job security</p> <p>Unclear financial support during the employment transition (no pay-offs upon resignations or in case the employee chooses to use severance payments as a supplementary pension)</p>
	Transparency in employment relations	<p>Less mobbing</p> <p>Less court rulings</p>	<p>Capital management of MVKs</p>
FLEXIBILITY	External flexibility	<p>Increased self-chosen mobility for employees</p>	<p>?? Increase of employers' ease to fire</p>
	Cost planning	<p>No more liquidity bottlenecks in hard times (especially for SMEs)</p> <p>Easier cost management in the balance sheet for enterprises playing on the international market</p> <p>Improvement for companies characterised by long employment relationships</p>	<p>Additional non-wage labour costs for sectors/firms not affected by severance pay legislation in the old system (e.g. tourism, retail, etc.)</p>

5. Analysis and findings

Overall, our case study has shown that organised business has substantially cooperated in the establishment of a new system of severance payments (and supplementary pensions) in Austria. This result is consistent with what anticipated by our typological framework. Accordingly, we expected that employers' active support for national social policy development could have been favoured by organisational structures like the Austrian ones, characterised by high degrees of inclusiveness, cohesion, sanction leverage and institutionalised participation in (non-wage) state regulation. The underlying idea was that such structures endow employers' associations and their representatives with significant governance capacity, enabling organisational experts and leaders to coordinate members' particularistic interests with more general interests and govern business' political mobilisation, so as to favour the achievement of public policy goals.

However, the governance capacity manifested by the Austrian organisation of business interests has not remained constant over time.

To start with the first episode of the 1990s (par. 2), although no new severance pay regulation has been eventually introduced, we can nevertheless make a few observations concerning the mode of employers' collective action. In particular, in spite of the absence of specific political pressure, employers' representatives have accepted to participate in bipartite negotiations with unions on the severance pay reform well before this had entered the government's agenda. Yet, such openness to dialogue has not been coupled to a capacity for interest accommodation, since the WKÖ has reiterated its initial demands even when they had already been rejected by organised labour. For example, employers' representatives have continuously sought to link the issue of severance payments with that of holiday regulation although the ÖGB had no intention to trade its interests on those issues. True, also labour representatives have shown a limited capacity to change their initial positions and reach a compromise. As a result, organised business (as well as organised labour) has lost an opportunity to shape the new severance pay policy independently from party politics, weakening at the same time the credibility of social partnership as an effective platform for interest clearing.

It was only during the second reform episode (par. 3) that business cooperation reached a crescendo. After the ÖVP-FPÖ coalition government devolved the task of setting the key

points of the new severance pay design to the social partners, the political behaviour of organised business became more problem-oriented and focused on the achievement of a consensual compromise with organised labour.

A first evidence of the intensification of employers' active support can be found in the speed at which employers and workers' representatives reached an agreement on the crucial aspects of the new policy in the 2001 bipartite negotiations, albeit actors' positions towards the new severance pay had not changed with respect to those of the 1990s. The second evidence refers to the joint action of employers' and workers' representatives against the 2002 ministerial draft, aimed to ensure that the key points of the reform proposal emerged from bipartite negotiations would have been eventually turned into legislation.

How can we make sense of the increased activism of employers' representatives for the final introduction of a severance pay model agreed with organised labour in the second reform episode?

Almost certainly, we cannot explain the crescendo of business' active support on the basis of employers' material interests in the reform. In fact, at the beginning of the 2001 bipartite negotiations on the new severance pay, organised business proposed the same model put forward in the previous unsuccessful phase of bipartite negotiations. Hence, there was not such a thing as contingent material interest convergence that could enable the formation of some cross-class coalition between (segments of) business and labour.

Equally, there was no pro-unions party at government that could alter the balance of power between business and labour in favour of the latter, thus forcing employers to give up their demands and reluctantly support institutional interlocutors in the establishment of the new severance pay. To the contrary, the balance of power in the second reform episode has appeared relatively more advantageous for employers, whose influence on the decisions of the executive could have been considerably favoured by the ideological convergence with the ÖVP and the anti-unions approach of the FPÖ. Nevertheless, employers' representatives have not made use of the higher power resources offered by the political context of the early 2000s to circumvent unions' informal veto on the severance pay

reform. As more, they have even distanced themselves from governmental plans of unions' marginalisation from the broader national policy process.

This puzzling political behaviour of organised business can be better understood in the light of the escalation of social conflict that resulted from the collision between unions' approach to welfare reform and the ÖVP-FPÖ's *Sozialpolitik neu*. Indeed, the fact that already in 2001 governmental action in social policy came to destabilise social peace and the legitimacy of the Austrian social partnership has fundamentally brought employers' representatives and the unions closer together.

Then, the crescendo of business cooperation in the final stages of the severance pay reform has to be understood in the light of the vested interests of employers' political representatives in restoring the stable (although informal) participation in state power and policy formation of the social partners, rather than in terms of the immediate material interests of business actors in the reform. By contextualising the late activism of the WKÖ (as well as of the ÖGB and the AK) within the broader political climate of the early 2000s, we can obtain an empirical example of the organisational mechanism of opportunism (Van Waarden 1995), which our typological framework provides for. This substantially means that, during the last phases of the severance pay reform process, the WKÖ has put the achievement of a compromise with labour representatives before the logic of membership. Basically, the final collective goals and strategies of employers in the severance pay reform have been shaped by the organisational imperative of saving the long run political influence of the WKÖ within the system of the Austrian social partnership by proving the ability of social partners to rapidly find suitable solutions to social problems, independently from the government. Thanks to its high degree of organisational autonomy – and in defence of it – the WKÖ has managed to give priority to the logic of influence, that is, to trade part of the short-term interests of the membership in the new severance pay with the long-term objective of securing institutionalised participation in power at the state level.

Our interpretation has found some confirmations also in our interview with a representative of the WKÖ. According to our interviewee, in spite of a balance of power clearly in favour of the world of business, the WKÖ has not contemplated a strategy of circumventing or delegitimising the unions to push forward employers' interests because it would have been a political mistake. Such behaviour, indeed, would have simply disrupted the trust of

organised labour in the system of social partnership, and almost certainly the bill from unions would have been presented some years later to the WKÖ, maybe under a more pro-unions government coalition (Interview 4).

Given the relatively higher importance of the logic of influence in shaping employers' collective action in the second reform episode, the WKÖ has nevertheless tried to strike the best deal for its broad membership with the unions and the government. Although it has not succeeded in satisfying the specific interests of some business segments (e.g. the sectors employing a high share of seasonal workers), the WKÖ has managed to obtain some advantages for the business as a whole. So, for example, it has managed to: turn the Austrian severance pay in a contributory-based system, which eases cost calculations for any kind of firm; establish a common contributory rate for all employers, so to avoid intra-class discriminations; and keep the contributory rate for employers at a relatively low level. The achievements of organised business concerning the design of the new severance pay have been favoured by the fact that also the unions had an organisational interest in showing their capacity to compromise, to counter their image of obstructers of modernisation. In this respect, if a convergence of interests between organised business and labour can be found, this entails vested organisational interests rather than economic material interests as such. The joint effort of employers' and workers' representatives to defend their severance pay model vis-à-vis the one contained in the first 2002 ministerial draft seems to provide evidence of a similar convergence.

The comparison between the first and the second reform episode leads us to reflect also on the distinct effect that the government has on the governance capacity of the organisation of business (and labour) interests.

In particular, in the first reform episode, the presence of a coalition government formed by the SPÖ and the ÖVP, the two parties historically connected to the principal Austrian private interest organisations, has worked as a facilitator of clientelistic dynamics of policy formation. As we have seen, inter-class interest conflicts over the design of the new severance pay have not been reconciled during bipartite negotiations. Rather, they have been channelled into the Austrian Parliament by the two parties on government, which put forward alternative severance pay models reflecting the differing interests of organised business and organised labour.

The absence of specific political pressure and the granted access to the policy process provided by the political ties between the major interest associations and the two parties in the executive have reduced the incentives of both employers' and workers' organisations to employ resources for the enhancement of their governance capacity.

Against this background, we can now refine our hypotheses on the relations between the level of organisational development and the governance capacity of the organisation of business interests. Even in the case of highly developed structures of business interest organisation like the Austrian ones, the type of government on power maintains a certain influence on the mode of employers' collective action in social policy. As discussed in the theoretical chapter (Ch. 3, par. 3.2), a strong government seems necessary to support the governance capacity of employers' associations and enable organised business to carry out cooperative roles in welfare reform. Conversely, a weak government that enacts clientelistic practices, instead of leading tripartite talks to the achievement of consensual decisions, largely reduces the capacity of self-regulation of business interest associations and their responsiveness to the imperatives of the logic of influence. Moreover, by overloading the policy process with the burden of interest reconciliation, a weak government can lead welfare reform processes to sub-optimal policy outputs, of which the decisional stalemate of the first reform episode can be an example.

Besides, the case of the Austrian severance pay reform allows us to find some congruence between the observed mechanisms of interest aggregation of the WKÖ and those we expected in view of its high level of organisational complexity¹³⁵.

On the whole, the prevalent logic in goal formation has been the logic of influence. The Austrian organisation of business interests has appeared relatively more responsive to the political requirements of successful associative action in both the reform episodes analysed. So, for example, the positions of business in the various phases of the severance pay reform have been unitarily voiced by the WKÖ, as we expected in consideration of the high level of cohesion that characterises the system of employers' interest representation in Austria. The other large Austrian employers' association, the IV, has never tried indeed to interfere with the representation tasks carried out by the WKÖ during the institutional talks

¹³⁵ See in particular Ch. 5, par. 3.

on the severance pay reform; rather, it has coordinated its political demands with WKÖ's professional managers and part-time leaders.

Finally, the historical reconstruction of employers' collective action in the two reform episodes has highlighted another anticipated effect of organisational structures on the way business has formulated its policy goals and strategies all along the policy process. In particular, the positions taken by the WKÖ have always been expressed in terms of the general interests of business, whereas the organisation has tended to oppose legislative provisions that could have introduced discriminatory treatments among the various segments of its broad membership.

For example, in the first reform episode, the WKÖ has sought to link the issue of the severance pay with that of the holiday regulation, because the latter met the general interests of business in the reduction of companies' fiscal burden. As this kind of political exchange turned to be unviable, during the second reform episode the WKÖ has switched its strategy to the attainment of exemptions or compensations for those business segments that would have become the losers of the reform. These political demands have never entailed negative effects on other business segments, though. In this sense, our hypothesis that highly inclusive organisational structures contain business particularism and intra-class interest conflicts by favouring the internalisation of potential externalities seems to find some support.

In this respect, it is also worth noticing that during the final stage of the second severance pay reform process, the WKÖ has even opposed the governmental initiative to introduce a distinct regulation of the severance pay contributory rate for companies covered and not covered by general collective agreements. This reaction can be explained with the fact that the broad representation domain of the WKÖ has forced the organisation to take into account the relations of interdependence between the different segments of business for the sake of organisational unity. Supporting a diversified treatment for companies covered and not covered by general collective agreements would have simply overloaded the capacity of the organisation to balance the many heterogeneous interests of its comprehensive membership (Interview 4), which covers almost the entire private business sector in Austria.

VII. Organised Business and the Case of the Italian Severance Pay Reform

Between the 1990s and the 2000s, employers have variously contributed to the progressive transformation of the Italian severance pay into the prevailing financial instrument for the transition to a multi-pillar pension system. This transformation has resulted indeed from a layering of state interventions, in which organised business have only occasionally played a cooperative role. In fact, in the several reform episodes described below, employers' representatives have pursued different goals and strategies, which have sometimes led the Italian business community to hold roles of antagonism or acquiescence with respect to the observed policy innovations.

Overall, we have identified three broad reform episodes involving significant changes to the regulation of the severance pay, which have coincided with the three pension reforms enacted under the first Amato government (1993), the Dini government (1995), and the second Berlusconi government (2005). We have divided the historical reconstruction of each reform episode into subsections, to better spell out the principal puzzles, motives, and strategies of the protagonists of the policy processes.

Then, the first episode (par. 2) consists of two parts. One part introduces the characteristics of the policy crisis that has kicked off the series of interventions on the severance pay and the Italian pension system surveyed in this chapter. The other analyses the policy-making process leading to the establishment of supplementary pension funds, which has represented a path-breaking instance of tripartite policy concertation in Italy. For the second episode (par. 3), we have distinguished two phases: a phase in which the first Berlusconi government announces its plan to reform the pension system (and secondarily the severance pay), but eventually enters a government crisis; and a phase in which the Dini technical executive completes the reform process. The third episode (par. 5), instead, is made of three phases: a phase of tripartite consultations for the definition of the reform guidelines of the proxy law 243/04; a phase of tripartite talks between Minister Maroni and the social partners concerning the reform design to include in the 2005 ministerial draft;

and a final phase characterised by the pressure exerted by financial capital on the government to change the ministerial draft agreed with the social partners.

In par. 6 we have made a reconstruction of the most recent intervention on the Italian severance pay regulation. Although this cannot represent a reform episode in its own right, it has *de facto* significantly changed the institutional framework regulating the Italian severance pay, and it has profoundly hit business interests, as we will see.

In par. 4, instead, we have summarised the minor interventions on severance payments and supplementary pensions of the period 1997-2001 (par. 4.1), and depicted the political climate of those years (par. 4.2), because these elements act as the basis for a better understanding of the political dynamics described in the following paragraphs.

Similar to what we have done for the Austrian case study, once we have traced the relevant policy processes, we try to analyse whether and how the politico-organisational context has actually shaped the role of Italian organised business in them (par. 8), with special reference to our initial hypotheses (Ch. 3, par. 5).

Finally, we seek to provide background information on the policy problems and the goals of policy makers related to the functional transformation of the Italian severance pay into a crucial means for financing supplementary pension funds. To this end, in par. 1 and 7, we discuss the principal institutional characteristics of the Italian severance pay scheme and its interconnection with the development of supplementary pensions at the beginning and at the end of the long period in analysis.

1. The Italian severance pay and its interconnections with pension reforms

1.1 The original institutional framework

In Italy, the introduction of the severance pay (known as *Trattamento di Fine Rapporto* or *TFR*) dates back to the beginning of the 1980s. The law L. 297/1982 replaced a previous allowance (called *Indennità di Anzianità* or *Liquidazione*), which was paid to workers at the end of the employment relationship according to their seniority in the firm. Some of the main traits of the original severance pay regulation have not undergone major changes over the past decades. For example, a peculiarity of the Italian severance pay, especially in

comparison to the Austrian case, is that entitlements have never been dependent on the way of termination of the employment relation. Article 2120 of the Civil Code (*Codice Civile*) provides that severance payments are due in any case of termination, regardless of the reason (e.g. firing, voluntary resignation, retirement). Moreover, after eight years of service for the same employer, the employee can ask to receive the 70% of the saved TFR to cover medical expenses or buy a house¹³⁶. The level of severance payments results from the yearly accumulation of part of the employee's salary and fixed returns of 1.5% (plus 75% of the inflation rate). The employer has to retain 6.9% of the gross wage and to make reserves of 0.5% of the yearly salary in a guarantee fund (*Fondo di Garanzia*) run by the National Institute for Social Insurance (*Istituto Nazionale della Previdenza Sociale*, INPS). In case of bankruptcy of the firm, the employee can claim the severance pay before the guarantee fund, although the procedures to obtain severance payments require quite some time.

The original regulation was meant to offer workers a deferred part of the salary as a sort of unemployment compensation. However, soon it came also to offer employers a means of self-financing. Indeed, it often happened, especially among small firms, that employers financed part of their productive activities by withdrawing money from the capital accumulated for severance payments within the company, instead of borrowing credit from banks or from the less accessible financial market. We can briefly summarise the economic reasons behind this practice as follows. Obtaining credit from banks is not always easy, because banks can agree to lend only a part of the sum required to finance the activities of a company. Besides, at times the interest rates applied to loans by banks are higher than those of severance payments. While big companies could always turn to big capital markets, for many SMEs the difficulty of access to credit from both banks and financial markets has often represented a major problem, sometimes producing the risk of bankruptcy¹³⁷.

¹³⁶ Further possibilities of anticipated use of the TFR are provided in collective agreements.

¹³⁷ The cost of self-financing through the severance pay is the difference between the fix interest rate (1.5% + 75% of inflation) paid by the employer to employees on their accumulated severance pay and the market interest rate for credit loans that the bank would apply to the same employer, which largely depends on the creditworthiness of the firm (Interview 8). Hence, especially for credit-constrained enterprises, self-financing through the severance pay in Italy represents a highly important resource.

Since the establishment of supplementary pension pillars in 1993, though, policy-makers have progressively intervened on the original severance pay regulation, in order to turn the capital accumulated through severance payments into the principal source of financing for workers' private pension schemes¹³⁸. As we will see, the process leading to such transformation has consisted in almost two decades of piece-meal interventions under different actors' constellations. The reasons behind these reform efforts are vary and therefore they deserve separate discussion in the next paragraph.

1.2 Problems that triggered severance pay reforms

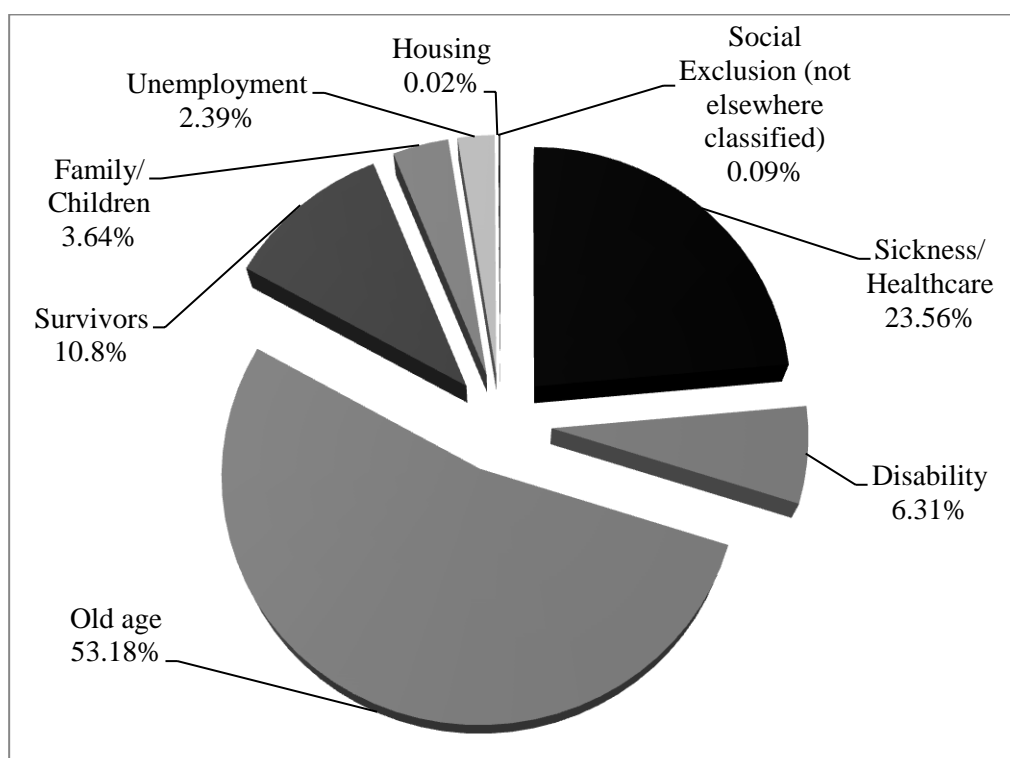
The reform impulse behind the series of interventions on the Italian severance pay between 1993 and 2007 came principally from the crisis of the pension system. All along this period, two issues have been at the centre of policy-makers' attention: the financial sustainability of the public budget and the level of future pension provisions.

Fiscal consolidation became a political priority since the early 1990s, when the pressure for a sound public finance was high due to the process of accession in the European Monetary Union. The Italian governments tackled the question in many ways, the most extensive of which have been the revision of statutory pension legislation and the creation of supplementary pension pillars. Jessoula and Alti (2010) detected at least three reasons why reforming the pension system became the principal option to restore balanced public accounts. The first reason lies in the fact that the pensions of public employees and civil servants had considerable weight on the general state outlay, because the Treasury Ministry paid for them. The second reason relates to the fact that the gaps between pension contributory revenues and expenditures for private sector workers registered by the INPS had to be filled by the state, thus further burdening the public budget. The third reason has to do with international finance: pension reforms have often represented an instrument to send positive signals of rigour in the national public finance management to international markets, in order to favour the reduction of interest rates over the huge Italian public debt. Not least, between the 1990s and the 2000s, old-age pensions became the main target of welfare reforms, due to both their growing costs in the wake of the changing demographic

¹³⁸ Before 1993, the only forms of supplementary pension available in Italy consisted in a few company pension funds, which covered just a small number of workers.

and employment structures and their disproportioned incidence on total social expenditure. Similar to Austria, Italy has usually been among the European big spenders in statutory pensions. Unlike the Austrian case, though, Italian public expenditures for pensions have long represented more than half of the budget covering all social protection items (Figure 4). Today, the incidence on social expenditures is still far higher than the European average¹³⁹. Other welfare programmes, instead, have remained considerably underdeveloped in comparison to many other European member states¹⁴⁰.

Figure 4 - Social benefits by functions (% of total benefits), Italy, 1998



S: ESSPROS.

¹³⁹ For example, in 2005 old-age pensions made for the 50.67% of the Italian social expenditures against the 38.48% of the EU-15 or the 39.15% of the EU-27 (ESSPROS 2011).

¹⁴⁰ For example, in both the 1990s and the 2000s the incidence of unemployment benefits on social expenditures has fluctuated around the 2%, while the European percentage has ranged between the 6% and the 7%. Also the incidence of family benefits over the general social budget has remained lower than the European average. From the 1990s onwards, expenditures for family benefits have never reached the 5% of the total social expenditures in Italy, while the EU-15 average has surpassed the 8%. In the years 2000s, Italy has spent slightly more than the 4% of the total welfare budget in family benefits. In the same period, Austria and Germany, which share several common traits with the Italian welfare system (Esping-Andersen 1990), have spent over the 10%.

Even when the state of public finance improved, at the beginning of the 2000s, interventions on the pension system did not cease. Rather, different arguments motivated them.

One argument referred to the need to re-launch the competitiveness of Italian companies, after years of restrictive policies aimed to ensure the respect of the Maastricht parameters and the entrance in the EMU. Employers particularly promoted this objective. In this respect, a relevant document is the one presented at the Annual Assembly of the Confindustria, held in Parma in 2001, where employers listed a number of actions to improve the international competitiveness of Italy (Confindustria 2001a). Among these, the document proposed further interventions on the pension system to contain public expenditures, like the development of supplementary pensions and the increase of the retirement age.

Another argument in support of new interventions on the pension system related to the aforementioned social question of guaranteeing adequate provisions for future generations, a top priority of the unions' agenda. The issue gained importance especially in consideration of the fact that the younger cohorts were deemed to bear the costs of the pension reforms of the 1990s, such as higher contribution rates and adjustments for the transition into the new system established after the 1995 pension reform (Jessoula and Alti 2010).

Against this background, between the 1990s and the 2000s the Italian severance pay has come to assume an instrumental function for the transition to a multi-pillar pension system. Notably, it has represented a less controverted source of funding than social security contributions for the creation and the development of supplementary pension pillars. In fact, pension reform measures affecting the level of social security contributions typically found the opposition of both organised business (interested in containing non-wage labour costs) and the state (which lacked of resources due to the long-standing crisis of public finance).

In this respect, Jessoula (2009) has emphasised the role of the TFR as institutional gate for pension reforms. This means, in short, that political actors were not as much against changes in the severance pay regulation as they were for other solutions to the pension crisis under discussion. In addition, Pizzuti and Raitano (2009) have recently stressed that

workers' participation in supplementary pension funds through severance pay savings has represented the only available instrument to lift up pension replacement rates in Italy.

However, the progressive change of use of severance payments has also presented several shortcomings. For example, Fornero and Fugazza (2002) have pointed out that public interventions for the development of supplementary pensions in Italy have generally underestimated the difficulty of collecting monetary resources from severance payments. According to their analysis, policy-makers have ignored the role of the severance pay as a form of unemployment compensation. The income maintenance function of the severance pay in case of unemployment has made less straightforward the decision of workers to convert the scheme into a private pension by shifting the accumulated capital in dedicated funds. Moreover, the authors have explained that a similar decision has often found further obstacles in the complex, at times inconsistent, stratification of norms regulating the transfer of severance payments in pension funds, with special reference to fiscal laws and incentives.

A final line of criticism worth of notice points to the fact that the many public interventions on the severance pay of the past decades have not eventually changed it in such a way that it can no longer constitute a form of self-financing for firms. This claim refers to the previously mentioned practice of some employers to obtain credit from severance pay deposits instead of turning to banks or to the capital market. As well summarised in an article of a prominent Italian newspaper, in some cases severance payments have financed both efficient and inefficient companies, serving as undue subsidies for business activities that would have shut down according to pure market laws (Bragantini 1994). Although this argument has not gained much space in the public debate, here we find it important to recall it, because it represents also a critique of the political positions of employers' associations in (more or less explicit) defence of such practice. As we will see later, employers' representatives have systematically opposed indeed the subtraction of severance pay deposits from the firms' balance sheet, because it would have deprived smaller firms of an essential source of credit, and thus *de facto* implied redistribution in favour of larger companies.

Since the Italian severance pay has gone through a huge number of piecemeal changes over the two-decade period in analysis, a thorough discussion of technicalities related to the scheme is out of the scope of our work. Instead, in view of our theoretical purposes, the

next paragraphs are to show what role employers have played in the long chain of policy processes and actor constellations that led to the current regulation of the Italian severance pay.

2. The severance pay in the Amato pension reform

2.1 New framework for supplementary pensions and severance payments

The layering of legislative acts involving the Italian severance pay between the 1990s and the 2000s has started with the governmental initiative to create a multi-pillar pension system in the early 1990s, when there was a desperate need to curb expenditures on social security to ensure economic recovery. At that time, Italy experienced a dramatic economic and financial situation, generated by a number of problems requiring simultaneous solutions. The huge public debt¹⁴¹, a decreasing labour force, and the rather low employment rate¹⁴² were only some of the difficulties shaking the prosperity of the Italian welfare state by hitting its public finance equilibrium. Some destabilizing pressure, in fact, came also from without. On the one hand, a series of speculative attacks from the international financial market led to the -30% devaluation of the Italian Lira and to the exit from the European Exchange Rate Mechanism in August 1992. On the other hand, in the same year, the process of European economic and monetary integration had set a milestone with the Maastricht Treaty, which Italy ratified in spite of the uncertain capacity to comply with the related public finance commitments.

Taking into account such a political context and the projections on public pension expenditures of the same period – which were rather gloomy – it appears self-evident why the reform of the pension system became a top priority in the Italian political agenda. As the on-going fiscal and monetary crisis was restraining both economic and time resources for far-reaching interventions, the government was forced to reorganize the Italian pension system with a two-speed reform, in order to implement urgent changes as soon as possible, while leaving more systematic adjustments for the future. To this end, in 1992 the

¹⁴¹ The Italian public debt doubled in the course of the 1980s, and reached the level of 102.2% of the GDP in 1991 (OECD Stat Extracts 2011).

¹⁴² For example, in 1991 the unemployment rate was 52.6%, against the 62.0% of the European average (ESSPROS 2011).

executive headed by the socialist Giuliano Amato¹⁴³ issued two decree laws targeted to contain public pension expenditures¹⁴⁴ and submitted a bill¹⁴⁵ to the Parliament that enabled the government to reform the statutory pension pillar and to create a legal framework for supplementary pensions. The latter item is of relevance here, because it eventually triggered a number of interventions on the regulation of severance payments.

In particular, the final legislative decree 124/1993 introduced new funds for the establishment of embryonic second and third pension pillars, some of which could be financed through severance payments. The act distinguished two types of supplementary pension funds, both managed by private bodies according to the principle of capitalisation, but left citizens' enrolment in them on a voluntary basis¹⁴⁶: so-called negotiated or closed funds (*fondi negoziali or chiusi*) and open funds (*fondi aperti*). The characteristics of these two types of fund are significant to understand the political dynamics involved in their creation. Thus, in this paragraph we briefly outline them. Instead, in paragraph 2.2 we will analyse in more details the politics surrounding the funds at this initial stage of development of supplementary pensions.

Negotiated funds are occupational funds, and thus make for the second pillar of the Italian pension system. They are non-profit organizations established upon agreement between workers' and employers' representatives by means of collective agreements, local agreements or company agreements. It follows that only members of a union that signed one of such collective agreements may gain access to this type of funds. Not only private employees, but also self-employed can enrol in negotiated funds, as long as they do it with the involvement of their representative association. Moreover, the social partners are allowed to monitor the management and the performance of these funds on behalf of their constituency¹⁴⁷.

¹⁴³ The coalition was formed by the Christian Democratic Party (*Democrazia Cristiana*, DC), the Socialist Party (*Partito Socialista Italiano*, PSI), the Italian Social Democratic Party (*Partito Democratico Sociale Italiano*, PDSI) and the Liberal Party (*Partito Liberale Italiano*, PLI).

¹⁴⁴ The decree law 333/1992, converted through Parliamentary approval into law 359/1992, and the decree law 384/1992, later converted into law 438/1992.

¹⁴⁵ Proxy law 421/1992.

¹⁴⁶ It is worth mentioning that, before the 1993 reform, some pension funds already existed for employees of banks and insurance companies (Pizzuti and Raitano 2009). These funds did not have to turn to the rules introduced after the Amato reform.

¹⁴⁷ Social partners supervise the functioning of the negotiated funds but do not directly manage them. In fact, professional bodies (e.g. banks, insurance companies and the like) administer

Open funds, instead, constitute the individual pension pillar. Financial bodies exclusively run them, without the involvement of the social partners. Everyone can opt in, regardless of both the membership to an interest organization and the type of employment relationship.

The legislative decree 124/1993 made open funds hierarchically subordinate to negotiated funds through a number of legislative provisions. For example, for negotiated funds, not only the employee, but also the employer had to pay contributions, according to a rate fixed by the national sectoral collective agreement of reference¹⁴⁸. Instead, there was no such legislative obligation for open funds. More important, while open funds could only be financed through individual contributions¹⁴⁹, negotiated funds could collect a part or the entire amount of the severance pay accumulated by the worker¹⁵⁰. Negotiated funds were also favoured by the fiscal regulation, because the payment of shares of the severance pay was a condition to obtain tax deductions on contributions to supplementary pensions.

The above-mentioned incentives for unionised workers to enrol in a negotiated rather than in an open fund are a consequence of the participation of the social partners in the decisional process leading to the reform, on which we expand in the next paragraph.

2.2 A path-breaking episode of tripartite negotiation

The policy-making process leading to the establishment of supplementary pension pillars – and the related attribution of new functions to severance payments – has taken the form of tripartite negotiations between the social partners and the Amato government. In this occasion, workers' and employers' representatives showed both divisive and common

capitals. A political management body made of representatives of unions and employers' organizations, elected by the participants in the fund, is in charge of the supervision. The board sets the criteria of investment and auditing. External experts, chosen by the board, carry out the assessment of the results achieved by the fund with workers' capital.

¹⁴⁸ To give an approximate idea on the level of payments, the average contribution rate calculated on the worker's gross wage amounts to 1.22% for the employer and 1.16% for the employee (Pizzuti and Raitano 2009).

¹⁴⁹ The schemes are financed through lump sums rather than being contribution-based only for the self-employed.

¹⁵⁰ Workers hired after 28 April 1993, who had decided to participate in a fund had to allocate the entire amount of the severance pay into the supplementary pension, while the others could allocate only the portion defined in the collective agreement of reference.

interests. We shall start to discuss the policy aspects on which the organisations of private interests disagreed, and deal with shared concerns afterwards. This because the positions of organised labour and organised business differed indeed in relation to the proposal of using severance payments for the development of private pension funds.

The Italian General Confederation of Labour (*Confederazione Generale Italiana del Lavoro*, CGIL), the Italian Confederation of Workers' Unions (*Confederazione Italiana Sindacati dei Lavoratori*, CISL) and the Italian Union of Labour (*Unione Italiana del Lavoro*, UIL), agreed on the need to exploit the financial resources accumulated in the severance pay for the development of private pensions. The position of the three major trade union confederations was motivated by two considerations. The first was the awareness of the unavoidable retrenchments that the Amato government had to implement on the first public pension pillar. The second was the low level of future pension provisions estimated by experts in view of demographic and employment challenges. Since already some years, unions had been aware of the fact that the only way to ensure workers a decent level of pension provisions in the future would have been to allow for an integration of statutory pensions with private savings¹⁵¹. Thus, they were generally more concerned of the promotion of supplementary pensions than of the change of use of the severance pay. In other words, it is fair to say that the reform of the severance pay proposed by the government was acceptable for the unions in view of its instrumental connection to the pension issue.

On the contrary, the position of organised business on the severance pay reform, put forward during the negotiation process by the principal peak level association, the *Confindustria*, was more sceptical. On the one hand, the association did not reject outright the proposal of transferring severance payments into supplementary pension funds, because it was generally favourable to the development of a multi-pillar pension system. In

¹⁵¹ In an article of 1986, the Italian newspaper *Repubblica* published an interview with the secretary general of the CGIL, Antonio Pizzinato, which touched upon the same issues discussed many years later in the Amato reform (Lonardi 1986). Already then, with the surprise of many, Antonio Pizzinato publicly asked policy-makers to open up possibilities for the development of private pensions, undertaking a sort of deregulatory approach to pension reforms that was quite unusual for a trade union. He proposed to encourage the creation of a competitive market of pensions, to ensure that in the future workers could enjoy a decent level of provisions by integrating statutory pensions with private savings. In the same occasion, he suggested to use the severance pay to finance private pensions. He maintained that, in this way, the scheme would have ensured greater security to workers. Apparently, when kept in the firm, it was not always paid to employees (especially in the case of SMEs) and was a source of litigations before the court (Lonardi 1986).

this respect, the position of the Confindustria was in line with past demands of pension reform, motivated by the general interest of employers in reducing non-wage labour costs and re-establishing stability on the financial market, so that firms may have had better access to credit. On the other hand, though, the Confindustria expressed some preoccupation concerning the transfer of severance payments into the supplementary pension funds. The reason was that such intervention would have drained an easily accessible source of credit for SMEs, especially in times of liquidity problems. The shift of financial resources into these funds and the consequent reinvestment into the stock market would have de facto implied a redistribution of resources from SMEs to big companies, which have easier access to the private capital market. This is why during the negotiation process of the Amato reform, the Confindustria tried to ask the government to boost the second and third pension pillar through huge tax reliefs, a position shared also by the Italian Association for Supplementary Pension Funds (Assoprevidenza), which tried to lobby¹⁵² for a more favourable fiscal regime for private pensions (Jessoula 2009). Actually, the position of the Confindustria with respect to the specific financial instruments to use for the promotion of supplementary pensions was quite in contrast with its own objectives of lowering public expenditures (and thus non-wage labour costs). Although the Confindustria was aware of the complicated status of the Italian public budget, it came to ask the government for tax incentives for which public resources could be hardly found. This apparent contradiction derived from the tension between employers' general interests in reducing fiscal pressure and the particularistic interest of SMEs in keeping the accumulated capital of the severance pay in the firm.

As regards the policy objectives shared by the Confindustria, the CGIL, the CISL and the UIL, they all had an interest in maintaining their traditional influence on the decisions concerning the severance pay. As the regulation of the scheme had always been in the

¹⁵² At the time of the Amato reform, a few interest groups representing financial bodies in charge of the administration of supplementary pension funds tried to have a say in the decision-making, but without much success. While the protagonists of negotiations remained the major labour and employers' peak level organisations, pressure groups remained rather marginal and could not really advance their interests, especially those connected with the fiscal regime envisaged for workers' participation in the funds (Jessoula 2009). Among the main groups, we recall the National Association of Insurance Companies (*Associazione Nazionale fra le Imprese Assicuratrici*, ANIA), the Italian Banks Association (ABI), the Italian Association of Asset Managers (*Associazione Italiana dei Gestori del Risparmio*, Assogestioni) and the already mentioned Assoprevidenza (providing technical assistance on supplementary pensions).

purview of social partners' self-governance, neither unions nor employers' representatives wanted the government to shift decisional power over the severance pay from collective bargaining to legislation. For this, they both opposed the idea of introducing the mandatory transfer of severance payments to supplementary pension funds by law (Jessoula 2009).

In the end, the government considered these latter concerns and respected social partners' authority by leaving the choice on severance payments and supplementary pensions up to the beneficiaries. Moreover, the government introduced clear incentives for workers to participate in negotiated funds, rather than open funds. The government acted to ensure that the development of supplementary pensions would have been accelerated and larger in the second pillar, where the social partners had more power according to the decree 124/93 (par. 2.1).

This openness to dialogue and capacity of interest accommodation of the Amato government, though, has been quite unusual for the Italian traditional style of policy-making. In fact, the practice of central tripartite negotiation had been restored under the Amato government after a long time, during which the Italian political system had experienced the failure of concertation in national public policy-making.

As exhaustively captured in a few sentences by Regini and Regalia on the revival of concertation in Italy (Regini and Regalia 1997:212):

“There thus emerged in the 1980s a tacit acceptance of the existence of two distinct spheres of action: the central and official level (which continued to be dominated by difficult and often adversarial relations), and the local level of the company or the industrial district, where instead a search for joint regulation, if only informal and voluntaristic, prevailed. The lack of institutionalisation, however, implied a certain amount of instability in relationships, and uncertainty over rules and outcomes. It is only in the 1990s that political bargaining - which ceased after the failed tripartite agreement of 1984 - has been resumed with vigour, and that a solution has at last been found for the problem of incomplete institutionalisation.”

Against this background, some specific conditions, generally attributed by scholars to other concerted policies of the same years, have favoured the return to tripartite negotiations on the severance pay and the creation of supplementary pension funds under the Amato government. Among these, the pressure stemming from the economic and financial emergency, mentioned in the previous paragraph, dominates. Another reason that finds broad consensus among experts refers to the Clean Hands (*Mani Pulite*) investigation against political corruption, started in spring 1992 by the Milan prosecutor's office, which

eventually led to the dissolution of the main parties of the Italian political system¹⁵³. Since the Italian party system was progressively losing legitimacy, the government sought to involve socio-economic actors in the policy-making, hoping that they could legitimize its action. Not least, the peculiar nature of the severance pay itself (i.e. a scheme traditionally in the hands of unions and employers' associations) has also contributed to make the government search for consensual solutions agreed in the tripartite arena.

Nevertheless, the need to find a compromise that could ensure the support of all actors of tripartite negotiations in a political context of emergency has eventually led to sub-optimal policy outcomes. Despite the promotion of workers' participation in supplementary pension funds was a shared objective of all the protagonists of the reform, the final policy design has turned unsuitable to reach such goal. After the implementation of the new legislation, private pensions grew much slower than expected, mainly due to the unattractive fiscal regime. Then, further public interventions on supplementary pension and severance pay legislation entered the agenda of the next government.

3. The severance pay in the Dini pension reform

3.1 Reform plans of the first Berlusconi government stuck in political turbulence

After the 2-years Amato government (June 1992 – April 1993), Italy experienced a rapid alternation of political and technical executives¹⁵⁴, in a time of emergency fuelled by the fiscal crisis and the rush for the EMU. After the parenthesis of the Ciampi-led technical government (April 1993 – May 1994), in charge of the electoral reform, a centre-right coalition government led by Silvio Berlusconi entered office on 10 May 1994. The short

¹⁵³ The DC, the PSI, the PSDI, the PLI and the Republican Party (*Partito Repubblicano Italiano*, PRI) were involved in a big scandal of corruption and broke up as a consequence of it.

¹⁵⁴ A technical government differs from a political one in that its establishment results from the incapacity of the Parliament to appoint a political majority to overcome an on-going government crisis, and not from general elections. The prime minister, in this case, is usually a person with previous institutional roles that has the support of a large part of the Parliament because of its good reputation and expertise. The technical government lasts until it has accomplished the tasks for which it was appointed. Either these can be urgent reforms not completed by the preceding political government or general management tasks to carry out until new elections take place.

life of the new cabinet did not leave enough time to pass the envisaged interventions on the pension system, which involved, among other things, a greater reliance on severance payments to finance supplementary pension funds. The following technical government, headed by Lamberto Dini¹⁵⁵, was entrusted with this task only a few months after the political elections, because of the crisis grown within the main coalition parties of the Berlusconi government¹⁵⁶.

Dini's first public proposal of a greater role of the severance pay for the development of pension funds dates back to the period when he was Minister of Treasury in the Berlusconi-led executive. At that time, the reaction of the Confindustria to Dini's speech in the Parliament, where he suggested to collect the necessary financial resources for pension funds from the severance pay, came within 24 hours. The Board of the organisation answered with a sound *no*, motivated by two main reasons. The first was that employers' representatives preferred a structural reform of the pension system rather than piecemeal interventions on single problematic aspects of it. The second motivation, given by the President of the Confindustria Luigi Abete, had to do with the defence of those enterprises that used severance pay deposits for self-financing. The President explained that it was not possible for Italian employers to shift away from their cash flow the allocated TFR contributions of the year 1995, some 50,000,000,000,000 of old Lira (approximately € 26,000,000,000), and replace them with bank debt (Tamburello 1995). Contrary to the previous reform episode, this time the position of the Confindustria was firmly against any intervention that would have implied the loss of TFR for enterprises that based part of their market survival on it. Yet, the Confindustria was favourable to any project that originated from negotiations between single employers and unions.

The political climate during the short Berlusconi government was shaken especially by unions' massive demonstrations. These were not so much against the reform plans of the executive related to the issue of the severance pay, but more crucially against the broader

¹⁵⁵ In view of the difficult situation of Italian public finance, the then President of the Italian Republic, Oscar Luigi Scalfaro, decided not to call general elections after less than one year from the last ones. Instead, he appointed a technical government led by MP Lamberto Dini. This executive, consisting of experts from outside the Parliament, lasted from January 1995 until May 1994.

¹⁵⁶ The conflict exploded between the North League Populist Party (*Lega Nord*) and the Berlusconi's *Forza Italia*. The other coalition parties were: the Social Italian Movement (*Movimento Sociale Italiano*, MSI), the Christian Democratic Centre (*Centro Cristiano Democratico*, CCD), the Union of the Centre (*Unione di Centro*, UDC) and the Liberal-democratic Foundation (*Federazione dei Liberali Italiani*, FLD).

pension retrenchments envisaged by the government for budget consolidation. When the executive finally managed to find a consensus on the pension reform, conflicts among the ruling parties broke the government coalition down¹⁵⁷. It was after this political crisis that Dini was asked to form a new cabinet and carry on the reform process. The next paragraph depicts the salient moments of this manifold process, with a special focus on employers' positions and the issue of the severance pay.

3.2 The exit of the Confindustria from tripartite negotiations

Since the first months of 1995, the newly appointed Dini technical government dealt with the question of the pension reform, consigned to the Minister of Labour Tiziano Treu. The process was characterised by an extraordinary reliance on concertation, which some authoritative observers explained with the government's search for the social consensus that parliamentary legitimisation insufficiently provided, due to the aforementioned phase of political crisis of those years¹⁵⁸. Besides, it may also be that the importance of the institutional changes at stake had required a large consensus, obtained from the involvement of the social partners: suffice to say that the final agreement struck between the unions and the government in May 1995 has allowed the implementation of politically difficult adjustments to make Italian pension expenditures sustainable. The agreement set in motion a transition from an earnings-related to a contribution-based public pension system, with changed eligibility and entitlement criteria (e.g. different contributory and age requirements) and a re-organisation of the public management of contributions (e.g. the establishment of a new fund for some groups of non-standard workers). The pension reform implied also a considerable intergenerational redistribution, whose costs mainly burdened the younger cohorts.

¹⁵⁷ The then Director General of the Confindustria, Innocenzo Cipolletta, rejected some years later Berlusconi's account of the failure of the pension reform (Bagnoli 2002). The premier said that the lack of support of the Confindustria had blocked negotiations. On the contrary, Cipolletta maintained that the reform project did not take off due to the disagreement of the *Lega Nord*. Accordingly, the latter defended its core constituency, i.e. the workers of the North of Italy, which would have borne the largest part of the costs.

¹⁵⁸ On the wave of public policy concertation in the mid-1990s, see for example the already mentioned article by Regini and Regalia (1997), or the analysis of Ferrera and Gualmini (2004). See also the article by Professor Michele Salvati written in those days for the Italian national newspaper *Corriere della Sera* (Salvati 1995).

In view of the profound changes affecting statutory pensions, the May agreement, as well as the law 335/1995 passed shortly after, included some further measures aimed at boosting the second and third pension pillars. The latter were still underdeveloped in Italy, due to the lack of incentives and implementation instruments provided by law 124/1993. Then, the new reform envisaged fiscal reliefs on workers' (and not only employers') contributions to supplementary pensions, and incentives to promote open funds. Severance pay allocation continued to regard only negotiated funds. Moreover, the severance pay regime was extended to some categories of public employees¹⁵⁹. Overall, the idea behind the new reform was to provide workers (especially the younger ones) with the possibility to add up supplementary pension savings to their future statutory pensions, in order to compensate for the estimated fall of replacement rates in the first pillar.

Given the complexity of this path-breaking reform, the government chose to follow the road of tripartite negotiations of the Amato government, and so it enacted several consultations with the social partners to discuss the details of the policy design prior to the Parliamentary legislative process. The unions actively contributed to the achievement of the new regulation. The CGIL, the CISL and the UIL not only took part to the meetings with the relevant government representatives, but also mobilised their base, asking the consensus of their members in relation to the proposed reform through referenda (Interview 6). Initially, also the Confindustria actively participated to the pre-parliamentary phase of tripartite negotiations. As far as the severance pay is concerned, the Confindustria agreed on many points already discussed with unions and the government the previous year. Among these, they agreed on:

- the voluntary nature of TFR allocation to pension funds;
- the differentiation of supplementary pension solutions according to production needs¹⁶⁰, especially by favouring through legislation the development of negotiated vis-à-vis open funds;

¹⁵⁹ These are the so-called *dipendenti contrattualizzati*, that is, workers tied to public employment positions by means of a contract (e.g. employees in the health, school, local administration sectors, as well as technical and administrative personnel of universities) and not on grounds of law regulations (e.g. employees in the defence sector, diplomatic staff, personnel of the Parliament, university professors and researchers).

¹⁶⁰ In this respect, it is interesting to recall the answer given by Cipolletta to a journalist of the *Corriere della Sera*, asking if the outcome of such differentiation would have been a discrimination of workers across employment segments. The representative of the Confindustria answered that it

- tax reliefs to encourage the expansion of the pension funds through employers' and workers' contributions.

However, until the end of the process leading to the law 335/1995, employers' representatives of the Confindustria opposed the reform project of the government because they considered it not radical enough to ensure a balanced budget and fiscal rigour for the near future. In order to express its strong disagreement with the decisions emerging from tripartite negotiations, the Confindustria eventually decided to exit them without signing the final agreement with the unions and the government. Nevertheless, not all members of the Board of the Confindustria shared this strategy. On the one hand, after the exit from negotiations, Abete complained about the poor policy output of tripartite negotiations and announced that the Confindustria would have tried to advance its position during Parliamentary hearings (Cecchini 1995). On the other hand, some other members of the Board declared that they saw the reform as the only solution making a step forward without breaking down delicate social equilibriums¹⁶¹.

Overall, in this reform episode employers' representatives have not managed to reconcile the diverse interests of business to advance policy goals with a unitary, strong voice. In fact, apart from the abovementioned split within the Board of the Confindustria, already at the early stages of the consultations opened by Treu in February 1995, when the Minister was still asking time to analyse and formulate a well-defined reform proposal, business inter-organisational conflict exploded. In this respect, it is interesting to observe the mosaic of political actions and public declarations of the world of employers all along the pre-parliamentary phase of reform.

Shortly after the announcement that negotiations with the social partners were opened, the associations¹⁶² of SMEs, tradesmen, artisans and the self-employed tried to give the meeting with the government a miss, to denounce the felt discrimination of treatment with respect to the Confindustria and the unions (Vaiano 1995). Later, they decided to

is not possible to remove differences, and that a common normative framework for all is just an illusion that cannot be implemented (Tamburello 1995).

¹⁶¹ This was the comment of Carlo De Benedetti, President of the company Olivetti and member of the Board. Some other members, instead, silently left the Board (Cecchini 1995).

¹⁶² The largest were the Confcommercio, the Confartigianato and the Confapi. For an overview of the main Italian peak employers' associations, see Ch. 5.

participate to the meetings, but they did not send their presidents, to protest against the fact that they felt treated as secondary actors by the government. They had also a real quarrel with the Confindustria, when Abete suggested the government to solve part of the fiscal unbalances by suppressing early retirement pensions for artisans and tradesmen, maintaining that these people keep carrying their economic businesses also when they get the pension¹⁶³.

Other segments of business were salient stakeholders in the process: banks and insurance companies. They had a strong interest in lobbying the government, to be sure to have a high control over the capital flows of the severance pay into supplementary pensions, via the administration of pension funds. They soon lamented that the measures in the pipeline for the development of the second and third pension pillars were too weak to stimulate the take-off of private pension investments.

The Confindustria shared this view, but other divisions were in place. A crucial point was the proposal to exclude the forms of investment with guaranteed minimum returns, a typical field where insurance groups were strong, from the supplementary pension schemes. This would have favoured the presence of banks in the management of the new funds, reducing the role played by insurance companies. Therefore, the latter, through the National Association of Insurance Companies (ANIA), lobbied the government to include the forms of pension capital management with minimum returns, while the banks and the Confindustria opposed the initiative (Bocconi 1995).

Because of the split within the world of business and the final choice of the Confindustria to exit tripartite negotiations, the unions eventually managed to have a high influence on the policy design, while some isolated demands of business interest groups (especially of banks and insurance companies) were satisfied (Jessoula).

Although President Abete stressed that the position of the Confindustria did not imply a rejection of concertation as a tool of enhanced transparency and efficiency in policy-making (Cecchini 1995), the political behaviour of the organisation in this occasion *de facto* interrupted the path initiated a few years before. This path could have thinkably led to

¹⁶³ The President of the CNA (representing artisans) publicly replied to Abete that the Confindustria had better to make proposals affecting their own membership domain. He added that the Confindustria had historically had high responsibility in terms of public budget costs too, due to the number of members taking advantage of short-term work programmes, early retirement schemes, and state aids (Marro 1995c).

a progressive institutionalisation of cooperative practices between the main organisations of private economic interests and the government, under the external pressure of the European integration and the internal fiscal crisis. Yet, employers' goals and strategies in this episode have shown the difficulties of the Italian political system to ensure loyalty to concertation as an institutionalised pattern of policy-making: pluralist pressure, scarce mutual trust among interlocutors and rare attempts to give up self-interested positions for the sake of compromise, seem to have prevailed. Anyhow, while Abete came to prize concertation nevertheless, the leadership of the Confindustria changed opinion with the new President, as we will see in the next paragraphs.

4. Further interventions between 1997 and 2001

The rapid alternation of short-term governments of the first half of the 1990s continued until 2001. Partly due to this context of political instability, only minor changes to the severance pay and the system of supplementary pensions could be introduced. Yet, these changes have contributed to shape the politics of severance pay (and supplementary pension) reform of the 2000s, and therefore deserve some attention. We will briefly sketch them in paragraph 4.1.

Moreover, the end of the 1990s has marked a phase of dissolution of the political climate of unity created around the shared objectives of financial recovery and EMU accession. In fact, the weakness of the political governments of the period, the increasingly divergent policy goals of the key political and socio-economic actors, and the absence of institutionalised rules of corporatist policy-making have led to the progressive deterioration of the Italian experience of social partnership already at the turn of the century. These changes are important to understand the reform episode of the 2000s too. Hence, we will discuss them in more detail in paragraph 4.2.

4.1 Main governmental initiatives of the period

Between 1997 and 2001 there have been three noticeable governmental initiatives in the field of severance payments and supplementary pensions. The first has been the levy

imposed on severance pay deposits in the firms under the Prodi government (17 May 1996 – 21 October 1998)¹⁶⁴, within the framework of the financial measures for the EMU. The second has resulted in the change of fiscal regime and organisation of supplementary pension funds implemented during the D'Alema-led governments (21 October 1998 – 22 December 1998; 22 December 1998 – 25 April 2000)¹⁶⁵. The third has been connected to the failed plans for further interventions on the severance pay under the technical government headed by Giuliano Amato (25 April 2000 – 11 June 2001)¹⁶⁶.

The first initiative dates back to 1997. That year the annual budget law was especially directed to keep Italian public finance parameters in line with the requirements of the Maastricht Treaty. Given the troublesome financial conditions of state accounts, the government faced a trade-off between the need of the country to implement a rigorous fiscal manoeuvre and the political necessity to avoid blame from those people that would have paid for it. As regards this issue, organised business called for profound structural interventions to reduce public expenditures. Conversely, organised labour and the Communist Party, which was in the government coalition, did not want monetary resources to be taken away from workers' social benefits (Paparella 1997b). At the end, the government proposed to avoid welfare retrenchments by collecting the missing financial resources for the budgetary exercise from an anticipated levying on severance pay deposits within the companies¹⁶⁷. The proposal envisaged also exemptions for small firms with less than 15 employees.

In line with the positions of some years before, the Confindustria rejected this proposal outright. This reaction was motivated by at least four reasons. First of all, the manoeuvre subtracted huge financial resources for investments from firms' balance sheet. In this

¹⁶⁴ The centre-left coalition led by Romano Prodi included the PDS, the PPI, the Greens (*Verdi*), and the party created around Lamberto Dini (*Lista Dini*).

¹⁶⁵ The first centre-left coalition led by Massimo D'Alema resulted from the alliance among the *Ulivo* (a centre-left reformist coalition, grouping people with social-democratic, christian-democratic, and liberal values), the communist *PDCI* and the christian-democratic *UDEUR*. The second coalition guided by Massimo D'Alema included the democrats of the Left (*DS*), the *PPI*, the *Democratici*, the *UDEUR*, the *PDCI*, the *Verdi*, and the social-liberal *Rinnovamento Italiano*.

¹⁶⁶ President Amato had the support of the same parties of the second D'Alema-led government, plus that of other two parties, i.e. the Italian Democratic Socialists (*Socialisti Democratici Italiani*, *SDI*) and the *Indipendenti*.

¹⁶⁷ For the private sector, the manoeuvre required early payments of slightly less than 4% of the severance payments due for 1998 (the entire yearly tax on severance payments amount to the 18%). For the public sector, the implementation of the Dini regulation, extending severance pay coverage to public employees, was postponed.

respect, the world of business soon started talking about *expropriation of the TFR* (Polato 1997). As more, President Giorgio Fossa considered ridiculous the exemption of firms under 15 employees and ironically asked how the government could determine that a firm with 16 employees was not small enough to be entitled to the exemptions (Di Vico 1997). Secondly, employers' representatives lamented the absence of structural reforms in the governmental proposal for the budget law, which instead was full of *una tantum* interventions. They generally attributed this fact to the government's political weakness and the related priority of politicians to avoid changes implying high costs for their electorate. Thirdly, organised business suspected that the decision to withdraw money from severance pay deposits was due to the informal veto of unions on welfare cuts, strengthened by the presence of Communists in the executive. Lastly, the Confindustria voiced its disappointment for the fact that the government did not consult employers' representatives on the budget law. In this respect, President Fossa explained that whenever the Confindustria asked for information on the budgetary plans, the government did not give a precise answer (Cecchini 1997). He also added that employers were no longer willing to accept the imposition of public decisions affecting their interests with the excuse of the critical juncture (Cecchini 1997). In the end, the influence of employers on the budget law remained marginal. Despite the Confindustria had proved to be a *union of employers*, organising a clamorous demonstration against the government¹⁶⁸ and threatening the breakdown of concertation, the latter ultimately chose to enact its initial budgetary plans without employers' consensus¹⁶⁹. As a result, although the levy on severance pay deposits has entailed the sole 1997 budget law, it has significantly hit employers and their trust in the system of central policy concertation.

The second initiative refers to the legislative decree 47/2000 of the D'Alema government, which introduced some important changes in the field of supplementary pensions. The decree established a type of fund, called Individual Pension Plan (*Piano Previdenziale Individuale*, PIP), managing workers' supplementary pension savings in the form of an

¹⁶⁸ The Confindustria organised a general meeting of its affiliates (about 3,500 employers) and connected a great part of them via a system of video conference (about 11,000 people). The demonstration was supported by the Confcommercio, the Confagricoltura and the Confartigianato (Paparella 1997b).

¹⁶⁹ In this respect, it is interesting to recall a statement of a representative of the government coalition (and former unionist of the CISL), Franco Marini, who explained that the government had to establish a dialogue with employers, not an exchange relationship (Di Caro 1997).

insurance policy. Moreover, a new fiscal regime increased the resources targeted to the development of supplementary pensions, creating a more efficient framework for the take-off of private pension pillars (Jessoula 2009). Among the most significant novelties in the area of tax treatment, the decree increased the deductibility of workers' contributions to pension funds and extended tax reliefs from negotiated funds to all other types of funds (i.e. open and PIP funds). This provision contributed to enhance competition among the pension funds, reducing the legislative privileges accorded to negotiated funds by law 124/1993.

Finally, the third relevant governmental initiative concerns the automatic allocation of severance payments into supplementary pension funds, envisaged in the bill delegating further adjustments of the supplementary pension system to the government (D.D.L. 6787)¹⁷⁰, which has never been translated into a decree though. The project entered a stalemate because all along the tripartite negotiation process, started under the D'Alema executive and taken over by following technical government led by Giuliano Amato, the Confindustria showed strong opposition. During the parliamentary hearing in late June 2000, employers' representatives of the Confindustria have given two official motivations of their opposition to the project. On the one hand, they saw the proposal against the logic of concertation, because the envisaged measures did not reflect a compromise among different economic interests. On the other hand, the automatic transfer of the severance pay into supplementary pension funds would have eliminated the original income maintenance function that the scheme carried out upon termination of the employment contract (Confindustria 2000). Apart from official motivations, employers' rejection of further interventions on the severance pay depended on the outcomes of concurrent negotiations over the issue of labour market flexibility. In fact, the President of the Confindustria, Antonio D'Amato, had tried to trade the consensus of employers over the TFR in exchange of the introduction of greater flexibility in the labour market, but without success. Neither the unions (especially the CGIL), nor the government, accepted the political exchange proposed by President D'Amato. Prime Minister Giuliano Amato even addressed the then leader of the Confindustria with harsh criticism for his way of conducting tripartite negotiations. At the end of a three-day round table on employment issues, held in Rome in

¹⁷⁰ The bill provided also for the possibility of opting-out for both private and public sector workers.

January 2001, the premier publicly blamed D'Amato for advancing unacceptable demands (e.g. on higher freedom of firing and more flexible wage-setting mechanisms) in exchange of employers' consensus on the use of the severance pay for the definitive launch of supplementary pensions in Italy (Marro 2001). Ultimately, President D'Amato replied to the criticism by simply shifting the blame of the reform failure on CGIL's veto in the negotiations on labour market flexibility.

4.2 A political climate of dissolving unity

The outburst of Prime Minister Amato gives a symbolic example of the instability of tripartite relations in Italy¹⁷¹. After almost one decade of return to consensual policy-making, aimed to guarantee social peace and the enactment of urgent structural changes to the Italian welfare state, this practice had not achieved a remarkable level of institutionalisation yet.

On the one hand, any try to make tripartite negotiations a formalised style of policy-making failed. For example, in September 1998 the Minister of Labour, Tiziano Treu, presented a document on social concertation, which explicitly followed the model outlined in the European agreement on social policy reached in Maastricht and later incorporated in the Amsterdam Treaty (Interview 6). The document aimed at opening a new phase of policy concertation in Italy, whose final objective was no longer financial stability, but economic development and employment growth, in line with the proposal advanced at the end of August by the then Minister of Treasury Carlo Azeglio Ciampi (Negrelli 1998). Apart from inviting the social partners to concentrate on new policy priorities, the document dealt with the way in which they had to take part in central policy-making¹⁷². The document put special emphasis on the creation of formal procedural rules, granting

¹⁷¹ To increase the symbolic value of the episode, we recall that Prime Minister Amato had launched tripartite policy concertation in the early 1990s together with Carlo Azeglio Ciampi, who sat close to the leader of the Confindustria at the conclusion of the round table in Rome on January 2001.

¹⁷² The government had already presented a similar document some years before, which was signed by the social partners on 23 July 1993. Among other things, the 1993 agreement provided for the institutionalisation of social partners' participation in two annual meetings with the government, during which they could advance their positions concerning financial planning and the state budget law.

greater responsibility and autonomy to social partners in selected policy areas. Among these procedures, the document advanced the proposal to establish a mechanism of prior discussion for policy issues with remarkable social and economic effects (Negrelli 1998). Accordingly, the mechanism would have enabled the social partners to present their positions on the general objectives of the measures under discussion before the government took any decision. In this way, the social partners could have obtained the right to participate in (non-wage) state regulation in a more stable way. The initiatives outlined in the document became object of discussion with the social partners in different occasions also in later years¹⁷³. Nevertheless, nobody ever showed much interest concerning the question of introducing formal procedures for social partners' participation in the policy process (Interview 6). At the end, the idea did not work, possibly because formalisation did not fit at all with a system traditionally based on informal practices (Interview 6).

On the other hand, the increasing divergence of policy goals among the key actors of the tripartite arena has generally reduced the commitment to bargained interest accommodation and the development of mutual trust among the protagonists of the Italian season of policy concertation¹⁷⁴.

To start with, the CGIL, the CISL and the UIL became less and less able to come up with shared positions. Despite the attempts to create a common union movement, started in 1997, the inter-organisational relations in the sphere of workers' representation became increasingly conflictual towards the end of the 1990s. While the Parliament was already examining a unions' joint reform proposal on workers' representation, in May 1999 the

¹⁷³ For example, the Social Pact of 22 December 1998, signed by the social partners under the D'Alema-led government, entrusted interest representatives with the task of defining instruments and measures to deal with inflation, economic development and employment growth. The Pact also provided for the involvement of other interest organisations before excluded from social concertation (i.e. the usual participants of tripartite agreements were the Confindustria, the CGIL, the CISL and the UIL).

¹⁷⁴ Although we cannot exhaustively survey the conflicting visions of the central political and socio-economic actors, we find it relevant to highlight some broad lines of divergence. In particular, after the EMU accession, boosting economic growth and Italian competitiveness on the global market became the most discussed issue. In this respect, despite the Board of the Confindustria publicly stated its interest for the implementation of structural reforms in the respect of the values of social solidarity (through concertation), their demands induced a tough reaction of unions (Paparella 1998). In fact, as soon as the Confindustria started talking about the need of higher flexibility at labour market's entrance and exit, during the 1997 tripartite meetings on social security reorganisation, the unions interpreted it as a request of greater deregulation and ease to fire (Paparella 1998). The issue of labour market flexibility, as well as that on welfare retrenchments to lower fiscal pressure, remained highly sensitive until the first years of the 2000s (*see infra*).

Secretary General of the CGIL, Sergio Cofferati, declared that it was no longer possible to continue with the unity project. The growing political divergences were making common collective action impossible. The divisions were for a large part the result of the convergence of unions' positions on those of the political parties to which they were historically tied. While the CGIL was aligned with the objectives of the communist and post-communist social democratic parties on government during the second half of the 1990s, the CISL had different political views from those of the same governments (Paparella 1999). In this respect, the 1999 demonstration, organised by the CISL against the budget law and the social policy of the government, represented a turning point for unions' inter-organisational relations, marking the shift from a phase of unity of action to a phase of competitive unity (Paparella 1999).

On the part of employers, after D'Amato took office in May 2000, the Confindustria progressively adopted a more demanding approach to policy-making. As explained by D'Amato himself during the 2001 annual assembly of the Confindustria, employers recognised the value of concertation as an interest clearing and a problem-solving tool¹⁷⁵. Yet, concertation was considered useful as long as its participants were able to find faster and more efficient solutions to the economic problems of the country. The President stressed that he regarded concertation as a method, rather than as an end in itself. He added that employers were no longer willing to accommodate their positions, if labour and the state used concertation to postpone necessary structural reforms, for the sake of either protecting their constituency (the unions), or avoiding the blame of the electorate (the government). For this, he invited the unions to remain autonomous from political parties, in order to promote a logic of dialogue in place of a logic of political clash (Confindustria 2001b). Seemingly, in the inaugural speech held at the 2000 annual assembly of the Confindustria, D'Amato explained his instrumental understanding of concertation, which had to abandon, in his opinion, the logic of unanimous decisions, because vetoes had often slowed down the adoption of urgent reforms (Pedersini 2000).

¹⁷⁵ In this regard, it seems worth to recall some statements made by D'Amato in that occasion (Confindustria 2001b). In particular, he said: "*as employers, we are aware that the market [...] needs a basis of rules and relations that constitute the fabric of social cohesion. In the absence of a context of cohesion, the market becomes a wild struggle*". He also replied to those that accused him to plan to jeopardise the dialogue with unions, by saying that "*[employers] are the first to recognise the meaning and the usefulness of bargaining with the unions*".

The presidency of D'Amato clarified also the condition for employers' participation in cooperative consultations. Employers asked to move from the static concertation of the 1990s, focused on the regulation of distributive conflicts, to a more dynamic one, dealing with the problems of Italian economic development in an ever more globalised world. More specifically, the 2001 list of employers' key political priorities remained the same of the previous year: greater flexibility of the labour market as a response to the problems of company competitiveness, unemployment, and the black economy.

The positions of the D'Amato Presidency received mixed reactions from the unions since the very beginning. Despite all national union confederations said to be willing to engage in a non-partisan dialogue, their relations with employers' representatives worsened, due to different approaches to consensual policy-making. Unions rejected the accusations made by D'Amato concerning their role in blocking reforms. They were also very critical about the instrumental interpretation of concertation: especially Sergio D'Antoni, Secretary General of the CISL, stressed that political actors had to pursue concertation as a policy (Pedersini 2000). The CGIL remained very much sceptical about the possibility to find agreements with the Confindustria. When in March 2001 the main employers' organisation advanced the proposal of a social pact on pensions, flexibility and severance payments, the CISL and the UIL were interested in maintaining a dialogue with the Confindustria on the issues, while the CGIL rejected the entire employers' agenda. Many observers commented that the line taken by the CGIL was based on political reasons: the union tended to consider Confindustria's proposals as expression of the centre-right coalition, competing in those days for the national elections¹⁷⁶ (Paparella 2001).

Against the background of a crumbling social unity, a considerable part of the interventions on severance payments and supplementary pensions envisaged by the centre-left governments of the late 1990s entered a stalemate. Then, the second government headed by Berlusconi, appointed by the Parliament in May 2001, took the issue over, as we will see in the next section.

¹⁷⁶ More generally, some commentators stressed that, at the beginning of the 2000s, the CGIL increased its focus on political and electoral matters, at the expenses of its workers' interest representation activities. Accordingly, this would have been the main element of divergence between the CGIL on the one side, and the CISL and the UIL on the other, increasing the divisions within the world of organised labour (Paparella 2001).

5. The severance pay in the Maroni pension reform

5.1 *The long way to the proxy law 243/04*

At the beginning of the years 2000s, experts estimated that statutory pension replacement rates would have significantly decreased after the full implementation of the 1995 Dini pension reform. Projections stressed the need to equip future pensioners with supplementary pension schemes, which then covered just a small number of Italian workers. According to official reports, the second and third pillars still played a marginal role in the Italian pension system – in spite of the many state interventions of the 1990s – due to the scarce diffusion of private funds¹⁷⁷ and the generally low enrolment rates¹⁷⁸. In view of this poor performance, one of the first actions of the second Berlusconi centre-right government, elected in spring 2001¹⁷⁹, was the preparation of a bill for a new pension reform, which contained also some measures affecting severance pay regulation.

Yet, the process leading to the parliamentary approval of the bill was rather long and characterised by adversarial industrial relations. Tensions grew particularly between the unions and the government, after the latter had presented its ambitious reform agenda on

¹⁷⁷ A report on the state of development of private funds by 2001 appeared in a document of the Ministerial Commission for pensions headed by MP Alberto Brambilla. The Commission was in charge of assessing the effects of the 1990s interventions on the various pension pillars, in order to point out further measures to improve the efficiency of the system. The report showed that the first fund became operative only in 1998, a few negotiated funds had been established and funds for public employees (i.e. potentially covering about 3.6 million people) had remained blocked till the end of 2000 (Ministero del Lavoro e delle Politiche Sociali 2001). The diffusion of negotiated funds varied very much across sectors and firms of different size: while the majority was concentrated in companies with more than 1000 employees (accounting for the 45.6% of people enrolled in supplementary pension funds), they were almost absent in companies with less than 20 employees, which made for only the 4.5% of participants in pension funds. As for open funds, the self-employed constituted the largest share of participants (90%). On the contrary, only a few self-employed had enrolled in a negotiated fund.

¹⁷⁸ The Commission for Pension Funds Supervision (*Commissione di Vigilanza sui Fondi Pensione*, COVIP) reported that in the year 2000 people enrolled in negotiated funds were only 885,651, against a number of potential participants of 9 million employees and 4 million self-employed (COVIP 2001). People enrolled in open funds were 223,032. Overall, people participating in supplementary pension funds were 1,108,683, that is, the 5.4% of total employment (about 20.6 million workers).

¹⁷⁹ The centre-right government coalition included Berlusconi's liberal-conservative party, *Forza Italia*, the conservative *Alleanza Nazionale* (AN), the Lega Nord, the christian-democratic CCD and CDU, the *Partito Repubblicano* and the Independenti. Silvio Berlusconi held office between June 2001 and May 2006.

pensions, the tax system, and the labour market¹⁸⁰. While the welfare policy of the unions (especially of the CGIL) was generally divergent from that of the executive, the leader of the Confindustria, Antonio D'Amato, often aligned its organisation to the decisions of the centre-right government for ideological rather than substantive reasons (Lanzalaco 2004). Also because of this, the relations between the unions and the Confindustria remained rather cold too. As regards the unions, they had reason to believe that the government supported employers' interests, and at some point even publicly accused the Confindustria of entertaining strong political connections with the Berlusconi cabinet (Paparella and Rinolfi 2004b). This perception of an unfavourable balance of power indeed brought the CGIL, the CISL and the UIL close together to strengthen their position vis-à-vis the government and the Confindustria, marking a new phase of organisational cohesion after the previous period of political divisions (par. 4.2). On the part of the Confindustria, under the presidency of D'Amato, the organisation tended to treat unions as conservative forces that blocked necessary welfare reforms. As more, since the beginning of his mandate, D'Amato had explained that he considered legitimate to jeopardise unions' veto to accelerate the implementation of the reforms that Italy urgently needed (Pedersini 2000).

Due to this specific political context, during the first years of the second Berlusconi government the influence of the unions in the policy process was significantly curtailed. Nevertheless, after the Parliament had delegated the government to proceed with the draft of the new pension reform, in February 2003, the Minister of Labour, Roberto Maroni, resumed the dialogue with organised labour and opened a phase of tripartite negotiations that involved also discussions concerning the severance pay regulation. Here we limit our historical reconstruction to the latter issue.

In particular, the government had envisaged further interventions on private sector severance payments¹⁸¹, implying the compulsory allocation of the severance pay into supplementary pension funds. Since the government was aware of the sensitiveness of the social partners for this policy option, which they had already rejected in the 1990s, it tried

¹⁸⁰ In 2002, premier Berlusconi even announced that the government would have implemented the envisaged changes without unions' consent. Similar to what happened in Austria in the same period (see Chapter 6), an outstanding representative of the government coalition harshly stated that unions had too much power and privileges, and added that their role had to be downsized (Paparella and Rinolfi 2002).

¹⁸¹ The interventions discussed and approved within the framework of the Maroni pension reform do not apply to public sector employees.

to link the acceptance of the provision to another issue. In particular, the government promised cuts of social security contributions for incumbent workers with open-ended contracts (Muratore 2003). The measure aimed to lower non-wage labour costs in exchange of employers' consensus for the devolution of the capital contained in firms' severance pay deposits to private pension funds. Moreover, a further initiative became object of intense discussion during tripartite talks: the possibility to harmonise the regulation and fiscal treatment of all types of supplementary pension funds (i.e. negotiated, open and PIP funds).

Organised business and organised labour were similarly critical towards governmental reform plans, but the motivations of their opposition were very different. On the one hand, the Confindustria maintained that the reform project was not radical enough and asked for greater retrenchments; a strategy that had already turned unsuccessful in the Dini pension reform, but that this time the Confindustria probably considered politically viable, due to the presence of a pro-business cabinet. On the other hand, the CGIL, the CISL and the UIL jointly drafted a list of amendments submitted to Minister Maroni in April 2003 (Muratore 2003). In the first place, the document defined unconstitutional the compulsory allocation of severance payments into supplementary pension funds, and asked to either leave the final decision on such allocation to the workers, or introduce a *silent-assent* mechanism¹⁸². The document criticised also the proposed social security cuts, which were deemed to reduce future welfare provisions and erode the statutory pension pillar. Lastly, the document advanced the demand of keeping the more favourable regulatory framework for negotiated funds established in 1993.

As soon as it became clear that the government would have not seriously taken into account unions' demands concerning the pension reform, the CGIL, the CISL and the UIL called a demonstration on 24 October 2003. In the common leaflet reporting the reasons of the demonstration, the unions pointed out their criticism not only towards the reform design, but also in relation to the way in which the government had taken its final decisions. They denounced that the acceleration of the decision-making process on the

¹⁸² The *silent-assent* mechanism implies that workers have to decide whether to allocate severance payments into a supplementary pension fund, or to keep it in their employer's firm. If workers do not explicitly disagree, though, the new severance pay flows are directly transferred into a supplementary pension fund.

pension reform, resulting from the governmental initiative to include the proposed pension reform in the budget law for the year 2004, had ultimately led to the marginalisation of the social partners (Paparella and Rinolfi 2003a). Hence, they asked the government to re-establish a dialogue on the reform.

The government reacted to unions' protests by reopening negotiations. In the end, the Minister of Labour decided to take up some of the demands advanced by the CGIL, the CISL and the UIL¹⁸³. In particular, he suspended the envisaged social security cuts for incumbent workers hired with open-ended contracts. He also replaced the planned compulsory transfer of workers' severance payments into supplementary pension funds with a silent-assent allocation mechanism. According to the new reform proposal, private sector employees would have had six months to decide whether to allocate their severance pay into a supplementary pension fund (being it a negotiated, open or PIP fund), or to keep it in the firm.

In consequence of these late changes, the final reform proposal, submitted to the Parliament and approved in 2004 (proxy law 243/2004), watered down the original plans of the executive (Jessoula 2009; Jessoula and Alti 2010). Nevertheless, the CGIL, the CISL and the UIL kept opposing the reform projects of the government and in March 2004 they organised a joint political platform and a general strike (Paparella and Rinolfi 2004a). Meanwhile, the government lost also the support of employers, who were disappointed to hear that the approved reform proposal introduced much less radical changes than expected.

5.2 Tripartite negotiations on the 2005 ministerial draft

In 2005, the government opened a new phase of tripartite talks with the social partners to discuss the main characteristics of the reform decree, whose design had to follow the guidelines set by the proxy law 243/04. As far as the severance pay regulation is

¹⁸³ Some scholars have interpreted the Minister's change of attitude towards unions' demands as an example of policy learning (Natali and Rhodes 2005). Accordingly, the Berlusconi-led cabinet had learnt that no pension reform could be implemented without unions' consensus, as the failure of the reform (and consequent fall of the government) had shown in 1994 (see also par. 3.1).

concerned, the key points of reform put forward in the proxy law can be summarised as follows:

- Within 6 months from the implementation of the reform decree, each worker had to choose whether to transfer severance payments into supplementary pension funds or to keep them in the firm where he/she worked. In case the worker had not expressed any preference, the severance pay flows would have gone to the pension fund set up by collective or company agreements;
- Employers had to pay an additional contribution for the transfer of severance payments into negotiated funds. Instead, employers' additional contribution was not due if the worker had chosen to move the accumulated severance pay to another type of pension fund (i.e. to an open fund or a PIP fund);
- The state would have provided credit facilities for companies that could no longer use severance pay deposits for self-financing;
- After two years, the severance pay could be moved from one fund to any other fund without penalties for the worker;
- After eight years, workers could ask up to 75% of their accumulated severance payments in the fund to cover health or housing expenditures.

The reform guidelines contained in the proxy law had made it clear to all private interest organisations that the government wanted to use the severance pay exclusively to finance supplementary pensions, regardless of the type of fund. While law 124/1993 had established that the transfer of severance payments was possible only to negotiated funds, this time the government wanted to extend the possibility of TFR allocation also to open and PIP funds. In response to this initiative, employers' and workers' representatives adopted a common position and tried to actively promote it in a unitary fashion during their meetings with Minister Maroni.

The renewed inter-class cooperation of this reform phase was motivated by the fact that both organised business and organised labour were interested in the safeguard of the privileges of negotiated funds attributed by law 124/1993¹⁸⁴, which granted the traditional

¹⁸⁴ Among these privileges, the existing legislation provided that: the severance pay could be used to finance the sole negotiated funds; employers' contributions for supplementary pensions applied

primacy of collective bargaining in the regulation of severance pay schemes (Interview 7). However, the change of the leadership of the Confindustria has certainly contributed to the resumption of a cooperative dialogue between employers' representatives and the unions. The new President of the Confindustria, Luca Cordero di Montezemolo, had indeed criticised the policies of the second Berlusconi government and announced his intention to stay politically neutral and to re-establish cooperative relations with the unions. In occasion of his inaugural speech, on 27 May 2004, he had also praised concertation as a means to solve Italian economic problems and considered necessary to recreate a climate of mutual trust among institutional actors and to share an overall collective project for the country. The motivations behind Montezemolo's change of political strategy for the Confindustria can be probably best summarised by one of his own statements (Confindustria 2004, own translation):

"I am proposing neither a Pact of Producers, as if we [the employers] had to defend ourselves from the market, nor substitutes for politics and for the government. However, we [employers] want to be protagonists of our future and not only passive subjects. I believe that we want, all together, to end a phase of disagreement and misunderstandings. This phase does not belong to us. If we do so, we will not simply contribute to solve our own problems. We will also manage to give a [positive] signal to the country, still shaken by too many divisions and by a no longer tolerable level of conflicts. The country, instead, needs factors of convergence".

Signs of a revival of policy concertation came immediately after the first tripartite meeting with Minister Maroni, held in January 2005. The social partners prepared a joint position paper concerning the reorganisation of the supplementary pension pillars and the use of the severance pay to finance private pensions, in which they listed their key points for the draft of the decree (Joint Position Paper 2005a). Apart from the CGIL, the CISL, the UIL and the Confindustria, also the Confcommercio, the Confartigianato, the Confapi (for business) and the UGL (for labour) signed the document.

As emerges from the joint position paper, all signatory interest associations shared the common objective of keeping the regulation of severance payments and supplementary pension funds agreed between the social partners and the first Amato government (law 124/93).

Besides, they agreed on two principles that the new legislation should have followed.

only to negotiated funds; and savings could not be transferred from negotiated to open funds or PIP funds.

The first principle emphasised the centrality of collective bargaining in finding the most appropriate private pension solutions in the various economic sectors in place of legislation. The idea was to allow for a differentiation of supplementary pension schemes among production categories, by leaving the regulation of financial flows to collective agreements. Collective agreements should have also defined the conditions and the limits for the portability of supplementary pension savings from one fund to another.

The second principle concerned the need to maintain a distinction among different types of funds, as provided in law 124/1993. In this regard, the joint position paper made special reference to the allocation of severance payments. Although the social partners recognised the necessity to use the capital coming from workers' severance pay for the development of supplementary pensions, employers and unions linked their consensus on TFR transfers to the establishment of clear rules. In particular, in case the worker had not expressed a clear preference on the destination of severance payments, the monetary flows had to be sent only to the funds established by collective agreements (i.e. negotiated funds). This was considered an important acknowledgement of the autonomy of collective bargaining regulation of the economy that the state had to respect. Moreover, the unions had a special interest in reducing the role of open and PIP funds, because they believed that such funds, run by private bank and insurance companies, were less transparent and had lower guaranteed yields (Paparella and Santi 2005).

Furthermore, the joint document contained specific requests of compensation for enterprises that could no longer rely on credit from the use of their employees' severance pay deposit. Accordingly, the government had to find the necessary financial resources to implement the reform at the same time (and in subordination) of the implementation of compensatory measures. The latter had to consist in credit facilities (especially for small enterprises), reductions of labour costs (mainly through tax reliefs), and a redefinition of employers' contribution rates for the TFR guarantee fund.

The draft of the decree presented by Minister Maroni in July 2005, though, met only some of the demands advanced in the joint position paper, thereby provoking the protest of the signatory associations. The reaction of employers' and workers' representatives was again unitary, but this time involved 23 interest associations. The latter collected their main points of criticism in a second joint document, signed on 22 July 2005 and presented to the government shortly after.

The document opened with the disappointment for the political conduct of the government, which had ignored the joint proposal of organised interests (Joint Position Paper 2005b:1, own translation):

“The draft bill approved by the Cabinet on 1 July proposes [...] interventions on the supplementary pension system that correspond neither to the solutions envisaged by the social partners in the joint document signed in February, nor to the principles contained in the proxy law. The consensual agreement on the choices and the future design of the supplementary pension system is essential to guarantee the effective implementation of the reform and the development of the system.”

Then, the document presented the key points of criticism with respect to the draft bill presented in July. The marginalisation of the role of collective bargaining in the regulation of supplementary pension schemes represented an issue of major concern. According to employers’ and workers’ representatives, the reform draft of the government had narrowed down the collective bargaining dimension of supplementary pensions with the following provisions:

- The levelling between schemes based on collective agreements and individual schemes. The document defined the levelling inconsistent with the characteristics of the private employment relationship and the role of the industrial relations system. In this respect, employers’ and workers’ representatives asked the government to reconfirm the set-up established in the decree 124/1993.
- The unclear regulation of the silent-assent mechanism. The draft bill used the term *partners* without the adjective *social* when it specified the subjects entitled to receive the severance payments of workers that had not expressed any preference. This linguistic aspect made a great difference because in case the adjective *social* was not specified, also private financial companies could have been entitled (i.e. the severance pay could have then gone also into open funds or PIP funds, which do not involve social partners in the capital management).
- The establishment of a minimum employer’s contribution for workers’ supplementary pensions, applying also to pension funds not established by collective agreements¹⁸⁵.

¹⁸⁵ It is important to clarify that this contribution for workers’ supplementary pensions on behalf of employers has nothing to do with the compulsory payment that the employer normally makes for the severance pay. As explained in par. 1, the law establishes it, like in the Austrian case.

The Confindustria was particularly against this reform initiative (Interview 7)¹⁸⁶. In fact, according to the existing legislation, the level of employer's contribution was fixed by collective agreements. In this way, supplementary pensions fell in the scope of the contractual agreements between workers and employers' representatives of the different economic categories. Hence, the measure proposed in the draft bill of the government was seen as a form of state interference that entrusted law provisions with the regulation of elements that qualified the content of the contracts and the agreements establishing forms of supplementary pensions (Joint Position Paper 2005b:3). Consequently, the second joint position paper asked the government not to extend employers' contributions to non-negotiated funds, although it left open the possibility to discuss the portability of the contributions as long as this was regulated by collective agreements.

- Insufficient compensations for enterprises, especially as far as credit facilities were concerned.

Over the summer, the Minister of Labour took up most of the demands of employers' and workers' representatives. Firstly, he found a solution to the problem of firms' compensation, by signing an agreement on credit facilities with the Italian association of banks, ABI¹⁸⁷. Secondly, he amended the ministerial draft presented in July following many of the proposals contained in the joint position papers, and submitted a new reform draft to the Cabinet at the beginning of October 2005 (Paparella and Santi 2005). Among the crucial amendments, Maroni limited exclusively to negotiated funds the possibility to finance supplementary pensions through severance payments and additional employer's contributions.

¹⁸⁶ The position was pushed forward also in the Parliamentary hearing that took place on the 27 July 2005. In that occasion, Confindustria's representatives referred to the joint position paper several times (Confindustria 2005).

¹⁸⁷ The agreement concerned the establishment of a state guarantee fund for enterprises (especially the SMEs) with low credit merit, so that they could have had more access to bank credit, in place of TFR resources. Moreover, the ABI took the commitment of guaranteeing a low interest rate to enterprises borrowing money to compensate TFR transfers (Paparella and Santi 2005). This agreement was suspended shortly after. Then, it was discussed again under the following government. The agreement ultimately worked out in neither cases (Interview 8). However, the final decree, approved in 2005, provided for other forms of compensation.

5.3 The influence of financial capital on the final reform bill

On 5 October 2005, the Cabinet rejected the amended bill presented by Minister Maroni and delayed the approval of the reform. These decisions were mainly due to the pressure exerted on the government by the Italian association of insurance companies, the ANIA, which had continuously opposed the privileged status granted by law to negotiated funds all along the reform process (Cottone 2005; Jessoula 2009; Interview 7; Interview 8). The ANIA, as well as the ABI, had an interest in the development of individual private pension funds (especially PIP funds), because insurance companies and banks had direct control on their capital management¹⁸⁸. For this, the ANIA had lobbied for the extension of the legislative privileges of negotiated funds to all types of fund. In particular, the ANIA asked to (Paparella and Santi 2005):

- allow the allocation of severance pay flows in open or PIP funds even if there existed a negotiated fund for that category of employees;
- extend employer's additional contributions for supplementary pensions also to non-negotiated funds;
- remove the automatic transfer of severance pay flows into negotiated funds in case of workers' silent-assent.

Contrary to previous reform episodes, this time the ANIA not only voiced its interests, but also managed to make considerable pressure¹⁸⁹ on the government, thanks to its political ties with some members of the Cabinet and with representatives of the premier's political party (Jessoula 2009)¹⁹⁰. Also Minister Maroni stated that the pressure of the ANIA

¹⁸⁸ We recall that, according to law 124/1993, insurance companies and banks can participate in the management of negotiated funds too, but their activities are subordinated to the decisions of an elective body with social partners.

¹⁸⁹ As pointed out by Jessoula (2009), under the second Berlusconi-led government, the decision-making process related to the severance pay and supplementary pensions resembled the model of political pressure by lobbies, rather than that of tripartite concertation.

¹⁹⁰ The Prime Minister Berlusconi did not participate in the voting of the bill, due to the apparent conflict of interests: he himself was owner of an insurance group (i.e. the Mediolanum) operating with open fund products (Paparella and Santi 2005).

blocked indeed the approval of the ministerial draft¹⁹¹. The Minister remained highly disappointed by the decision of the Cabinet to change the reform design agreed with employers' and workers' representatives during tripartite talks. He denounced that the executive had amended the final reform bill with provisions derived from ANIA's demands (Jessoula 2009).

On 24 November 2005, the Parliament approved the pension reform decree, containing the Consolidated Supplementary Pensions Act with the new regulation for private pension funds and severance payments (D.lgs. 252/2005). The final text revealed the nature of this piece of legislation, resulting from the muddled compromise between the conflicting economic interests of the many actors participating in the decision-making process. In particular, the text introduced a levelling of all forms of supplementary pension funds in case of workers' explicit enrolment choice and allowed for the portability of savings to a different fund after two years of enrolment, in line with ANIA and ABI's demands. At the same time, the new law partially maintained the privileges of negotiated funds, because these obtained the automatic transfer of severance payments in case of workers' silent-assent, as asked especially by the unions. Moreover, under article 8 of the new legislation, the state granted the primacy of collective bargaining on the regulation of the portability of employers' contributions to non-negotiated funds.

The government decided to postpone the implementation of the reform to 2008 for big companies and to 2009 for SMEs. This decision had at least three reasons (Paparella and Santi 2005). First, it allowed to save public money that otherwise would have gone to companies deprived of severance pay resources for self-financing. Second, it shifted the problem of finding the necessary resources for the implementation of the reform (e.g. those to finance tax reliefs and credit facilities). Third, it left some time for adjustment to firms. Moreover, the delay may have also served to give some time of advantage to banks and insurance companies over negotiated funds (Jessoula 2009).

The decision was very much criticised by the unions, because it made workers, especially the younger ones, wait longer for the take-off of supplementary pensions, which was seen

¹⁹¹ Maroni publicly declared that the rejection of the bill was due to pressing actions of some sectors, which were *neither social partners nor firms*, later specifying that he was actually referring to the world of insurance companies (Cottone 2005).

urgent, instead, to compensate the poor replacement rates of the statutory pensions of the future. Yet, within the two-year period of delay, the second Prodi government introduced further changes to the severance pay regulation. As we will see in the next paragraph, these interventions had no direct connection with the promotion of supplementary pensions and were meant to be transitional. Nevertheless, at the end they profoundly changed the legislative framework of the Italian severance pay.

6. The establishment of an *ad hoc* state treasury fund for severance payments

As soon as the new centre-left government, headed by Romano Prodi, took office in spring 2006, further interventions on the Italian severance pay entered the political agenda¹⁹². The communist Paolo Ferrero, Minister of Social Solidarity, promoted the issue, already contained in the electoral programme of the government coalition. The Minister of the Economy, Tommaso Padoa-Schioppa, particularly supported the initiative too. The involvement of these Ministers, besides that of the Minister of Labour, Cesare Damiano, reflected the two core objectives behind the implementation of additional changes to the severance pay regulation. On the one hand, the centre-left coalition shared unions' preoccupation concerning the negative effects of postponing the entrance in force of the decree 252/2005¹⁹³. Contrary to the previous centre-right government, the new coalition on power wanted to anticipate the implementation of the Maroni reform to January 2007, in order to provide workers with supplementary pensions as soon as possible.

On the other hand, the new executive had a strong interest in using the manoeuvre on severance pay deposits to finance part of the state budget. In particular, the proposal at stake implied the transfer of those severance pay flows not destined to supplementary pensions into an *ad hoc* state treasury fund, managed by the National Institute for Social Insurance (INPS). Minister Ferrero originally pushed forward the idea with the hope to increase workers' replacement rates in the first pension pillar (Marro 2006a). The measure would have also provided the state budget with new resources, which the government promised to use for housing policies (Jessoula 2009) or infrastructures (Interview 7).

¹⁹² The new Prodi coalition government had the support of the centrist party *La Margherita*, the *DS*, the *UDEUR*, the *Verdi*, the communist *PRC*, the centrist *Italia dei Valori*, the *Quota Prodi* and a party uniting the radicals and the democratic-socialists called *Rosa nel Pugno*.

¹⁹³ See par. 5.3.

With these objectives in mind, government representatives quickly drafted a bill, with the intention to include it in the budget law of autumn 2006 and thereby enact the interventions already in 2007. The draft proposed indeed the establishment of an INPS-run treasury fund, which was meant to collect the 50% of the accruing severance pay that workers had not used for financing supplementary pension schemes. The proposal affected both workers' autonomous decisions on the use of their severance pay and firms' balance sheets. As expectable, the reaction of the social partners was bitter.

The unions criticised the provisions from both a substantial and a procedural point of view. As regards policy contents, the unions did not want the government to take advantage of the silent-assent mechanism to transfer workers' accruing TFR into a state fund. In a joint position paper, the unions asked the government to maintain the regulation introduced by the decree 252/2006, which established the allocation of severance pay flows in the relevant supplementary pension fund (Santi 2006). As far as procedures were concerned, the unions lamented that the government had taken important decisions without consulting them in advance. They claimed that state actors could not jeopardise the social partners on issues affecting a part of workers' legally owned income (Santi 2006).

Organised business rejected the government's proposal outright. The envisaged measures would have deprived companies of the remaining severance pay resources and considerably hit the interests of small enterprises. The Confindustria voiced the criticism of its members as well as of other large interest associations representing small enterprises in Italy (e.g. the Confcommercio, the Confartigianato and the Confapi), with special emphasis on two key points. First, the delay decided by the previous government for the implementation of the Maroni reform was necessary to let firms adjust to policy changes. Without it, companies would have faced sudden TFR disbursements and may have run into financial troubles (especially smaller firms). Second, in the budget law the government had provided no adequate compensatory instruments for firms.

Similar to unions, the Confindustria complained also about the way in which the government had come up with the proposal. As explained by the vice-President, Alberto Bombassei, Confindustria's representatives had been informed of the interventions planned by the executive only at the last minute (Jacchia 2006). Moreover, employers were resentful towards the government because they believed that unions (especially the CGIL)

enjoyed a privileged channel of influence on decisions, through more or less formal bilateral meetings (Marro 2006b).

This firm believe became stronger when the centre-left government took up unions' demands concerning the allocation of the severance pay in case of workers' silent-assent, but did not change the decisions concerning the part of severance payments left to firms. Nevertheless, the unions declared their willingness to open tripartite talks with the government, because they understood employers' concerns and they acknowledged the importance of finding consensual solutions (Marro 2006b)¹⁹⁴.

Shortly before the opening of tripartite talks, the government had some bilateral meetings with employers' representatives. In the attempt to find an agreement with business, the government discussed the issue of the severance pay within the wider framework of the budget law for 2007. Consequently, the Minister of the Economy, Padoa-Schioppa, became the main protagonist of the talks with the Confindustria. In exchange of employers' consensus on the manoeuvre, the Minister offered to compensate firms with greater reductions of the incidence of taxes and contributions on labour costs than those planned for the 2007 budget law (and already announced in the political programme of the coalition). After short shilly-shallies in a rather tense climate, employers did not accept the compromise. Then, Padoa-Schioppa fixed a roundtable with the Confindustria and the unions to accelerate the achievement of a shared solution.

For employers, this substantially meant to choose the lesser evil. While large enterprises could potentially adjust to the further interventions on the severance pay in the pipeline, small companies would have never accepted the measure, not even in exchange of compensations in the form of fiscal cuts on labour costs. The Confindustria faced a dilemma. In case it had demanded to exempt from the provisions all firms with less than 10 employees, it would have satisfied only half of its members, while if it had managed to obtain the exemption of firms with less than 100 employees, only the 7% of its members would have not benefitted from the deal (Polato 2006).

¹⁹⁴ The CISL was particularly against the allocation of accruing severance payments in an INPS's fund. Moreover, it lamented that with the initiative the government had passed over unions and employers' representatives (Marro 2006b).

The final compromise was reached on 23 October 2006, when the Confindustria signed a tripartite agreement with the government¹⁹⁵, the CGIL, the CISL and the UIL, eventually transposed into the budget law for 2007 (L. 296/2006). The new piece of legislation established two relevant deadlines. From 1 January 2007 (instead of 2008, as decided by the previous executive), workers had to decide how to use their severance pay. From 1 July 2007, employers with more than 50 employees had to transfer the accruing severance payments that workers had decided to leave in the company into an INPS's *ad hoc* fund¹⁹⁶.

At last, the Confindustria accepted the subtraction of accruing severance payments from larger companies and obtained the exemption of firms with less than 50 employees in return. Although employers recognised that the differentiation among firms was unfair, they also acknowledged that it was the only viable solution, given government's persuasion to maintain the planned figures for the budget law by either implementing the manoeuvre on severance payments or reducing the cuts on labour costs¹⁹⁷. For example, the President of the group of small enterprises within the Confindustria, Paolo Trovó, considered the deal with the government good, because it safeguarded the interests of SMEs, representing the majority of the firms in both the Italian production system and the membership of the Confindustria. Other employers' associations of the small business felt represented by the Confindustria in the agreement too.

Apart from the exemption of firms with less than 50 employees, the vice-President of the Confindustria, Alberto Bombassei, who represented employers together with President Montezemolo at the final roundtable, gave other two reasons for the agreement (Il Sole 24 Ore 2006b). The first was that the government had promised compensations for firms, which would have been implemented synchronically with the manoeuvre on the severance

¹⁹⁵ In this occasion, the government was represented by the Premier Romano Prodi, the Minister of the Economy, Tommaso Padoa-Schioppa, the vice-Minister of the Economy, Vincenzo Visco, and the Minister of Labour, Cesare Damiano (Il Sole 24 Ore 2006a).

¹⁹⁶ The fund had to manage accruing severance payments according to the same rules normally followed by employers, laid down in the Civil Code. In this way, those workers that wanted to keep their deferred wage in the form of a severance pay (instead of a supplementary pension) could enjoy the same treatment independently of where the deposit was.

¹⁹⁷ Interviewee 8 explained that the deal was mainly based on budgetary calculations: the research centre of the Confindustria showed to governments' representatives that the resources withdrawn from firms with more than 50 employees were enough to cover the manoeuvre envisaged in the budget law for 2007. Hence, the government could consider the exemption of firms with less than 50 employees as a fair compromise.

pay¹⁹⁸. The second was that the government had granted that the measure would have had a temporary nature. Interviewee 7 confirmed that the final consent of the Confindustria was partly based on the bilateral agreement with the government that INPS's withdrawals from firms' severance pay deposits would have represented just a temporary intervention (i.e. a sort of emergency measure) to contribute to state budget consolidation. However, interviewee 7 also commented that the measure is still in place and that it could *de facto* turn into a permanent rule.

Largely, this episode was characterised by the unity of employers as far as policy contents were concerned, due to convergent interests and apparent constraints generated by governments' tenacious position. Nonetheless, inter-organisational dynamics within the world of business manifested a tenuous climate. The Confcommercio highlighted it quite well when it criticised the privileged channel of representation enjoyed by the Confindustria with the government during the entire process. The organisation kept this position even if it had appreciated the final compromise, because it believed that its exclusion from the tripartite talks had delegitimized concertation¹⁹⁹. According to the Confcommercio, by doing so, the government had not given proper representation to the part of the tertiary²⁰⁰ that had granted the growth of Italian economy and employment (Il Sole 24 Ore 2006c).

7. The severance pay and the take-off of supplementary pensions in Italy

The Italian case has shown a functional transformation of the severance pay, which has progressively lost its income maintenance role at the end of the employment relationship to become a central resource for supplementary pension funds. The transformation has

¹⁹⁸ The envisaged compensations consisted in the subtraction of the portion of lost TFR from firms' taxable income; and a 0.19% reduction in employers' contributions for unemployment, sickness, and maternity benefits (Coletto 2007).

¹⁹⁹ This kind of criticism is quite common in the Italian system, as we have also shown in previous paragraphs; but until now, it has not been sufficient to change the rules of the game. Many actors are often listened in the so-called *green room* of Palazzo Chigi (i.e. the Italian meeting place of the Council of Ministers), but then the government reaches the tripartite agreement with the usual key actors (Interview 6): the CGIL, the CISL, and the UIL as workers' representatives; and the Confindustria as the only employers' representative.

²⁰⁰ The agreed measure hit indeed many members of the Confcommercio, especially large firms operating in the mass retail channel and in tourism.

reached different levels according to the evolution of the relevant legislation and the take up rates of the pension-related version of the scheme.

The first public interventions making the severance pay available for private pensions gave a rather modest contribution to the development of the second and third pension pillars. As revealed by both the COVIP and the Ministerial Commission for pensions²⁰¹, a few years after the Dini reform only a small share of workers had decided to enrol in a supplementary pension fund. This poor result was principally due to structural problems related to the incomplete institutional architecture underpinning the link between the severance pay and supplementary pensions. For example, the late promulgation of the decree regulating the setting up of pension funds produced a considerable delay in the establishment of the first negotiated funds, started only in 1997 (Jessoula 2009). Another problem lay in the lower participation in supplementary pension schemes of public vis-à-vis private sector employees, mainly determined by a long lack of financial resources²⁰². In addition, the voluntary nature of workers' participation in private pension schemes can have significantly slowed down the development of supplementary pensions in Italy, as also happened in countries like Denmark, the Neatherlands or the UK, which moved to a multi-pillar pension system some decades earlier than Italy (Jessoula 2008).

Apart from institutional pitfalls, also the heterogeneous take-up rates among different groups of private sector employees contributed to the mixed initial performance of supplementary pensions. As also mentioned earlier in this chapter (par. 5.1), the diffusion of supplementary pension schemes was higher where negotiated funds were available and in sectors dominated by large firms. This phenomenon persisted after the Maroni reform and therefore drawn the attention of national experts, who explained it with the influence of two core variables on private sector employees' decisions concerning the use of their severance pay.

The first relevant variable, suggested by the COVIP (2008), is the diffusion of correct information among employees, which is more likely when workers are concentrated in the same production reality. According to the COVIP, this variable would explain why

²⁰¹ See also par. 5.1.

²⁰² The necessary financial resources came only in 1999, when a national framework agreement between the unions and the agency in charge of the collective bargaining for the public administration sector (ARAN) allowed for the extension of the severance pay coverage to public employees, already envisaged at the time of the Dini reform (Jessoula 2009).

negotiated pension funds, which represent the prevailing form of pension fund in the Italian system, today cover almost the entire set of potential participants in production segments characterised by large firm size²⁰³. Conversely, enrolment rates hardly pass the 10% in more fragmented production realities, especially in the tertiary. Nevertheless, some experts have recalled that the information activities of workers' representatives, typically more effective in more unionised economic segments (i.e. large industrial activities), often mediates the effect of firm size (Pizzuti and Raitano 2009).

Following national analysts, the second variable affecting workers' enrolment in pension funds is the presence (or absence) of dissuasive actions on the part of employers, which again relates to the level of unionisation and the firm size (Jessoula 2009). After the implementation of the Maroni reform, this variable has probably exerted some influence also on the functioning of the silent-assent mechanism. In fact, the number of workers choosing the silent-assent option was everywhere very low, but, in the case of smaller firms, this has more likely been a consequence of employers' adverse influence on the choice of their employees, although the above-mentioned asymmetries of information across smaller and larger firms may have played a role too (Jessoula 2009).

Even after the new rules about the allocation of accruing severance payments into an INPS-run fund entered into force in January 2007, the membership in supplementary pension funds seems to have had limited appeal on workers. Yet, after the implementation of the most recent interventions on the Italian severance pay, the enrolment rate of private sector employees has reached the 32%, similar to other countries that have moved to a multi-pillar pension system during the past two decades (Jessoula 2008). The increase in private sector enrolment rates cannot be attributed to the silent-assent mechanism, which was eventually chosen by just 60,000 individuals (Jessoula 2009). Rather, it came from the failure of this same mechanism, because the majority of workers have indeed expressed a preference concerning the use of their severance pay. In particular, the majority of workers that in 2007 had to choose whether to use their severance pay to finance supplementary

²⁰³ In this respect, the COVIP (2008) made the examples of collectively agreed firm or group funds like *PREVIVOLO* (for pilots and flight technicians) or *FONDENERGIA* (for workers in the energy sector), and of category funds like *COMETA* (for the metal mechanic industry), *PEGASO* (for public utility services) and *FONCHIM* (for the chemical and pharmaceutical industry).

pensions or leave it in the firm²⁰⁴ preferred the second option. Some researchers have remarked that, to better understand this result, one should consider the options as imperfect substitutes (Pizzuti and Raitano 2009). In fact, although the tax system favours pension funds, retaining the severance pay in the firm may bring more advantages to workers, depending on their risk aversion, their expected risk-return profile, and the perceived need to claim advance reimbursements. Concisely, two considerations may have oriented workers' preferences (Pizzuti and Raitano 2009). First, while pension funds provide higher returns on invested capitals²⁰⁵, they are also more risky, because they do not cover workers from financial market risks. Second, the severance pay retained in the firm represents a form of unemployment benefit that the employer can immediately reimburse to the worker²⁰⁶, whereas the pension fund reimburses severance payments only in case of a very long unemployment spell (i.e. no earlier than the first year of unemployment). In a country like Italy, where the unemployment compensation system is rather scanty²⁰⁷, especially in comparative perspective, it is quite understandable that employees may prefer to keep a liquidity reserve in the firm.

Furthermore, the rules introduced in 2007 concerning the automatic allocation of accruing severance payments in the INPS fund, originally temporary but still in place at the time of writing, have primarily contributed to reinforce the existing cleavages along sectoral and firm size lines. In fact, the number of people enrolling in pension funds characterised by high and medium enrolment rates (i.e. mainly those of sectors dominated by larger firms, such as the metal mechanic or the chemical industry) has increased at double speed than participants in supplementary pension schemes with already low enrolment rates (Jessoula 2009).

To conclude, the series of interventions on the severance pay described in this chapter have greatly favoured the expansion of supplementary pension schemes in Italy, especially

²⁰⁴ We recall that, according to law 296/2006, only firms with less than 50 employees can keep severance pay deposits, whereas firms with more than 50 employees are obliged to transfer the accruing severance payments into the *ad hoc* INPS fund.

²⁰⁵ Returns are generally higher due to higher interest rates applied to the invested capital. In case the worker opts for the transfer of TFR flows in a negotiated fund, returns are higher also because of the additional employer's contribution to pension funds provided by law.

²⁰⁶ Still, we want to mention that the procedure to obtain the TFR pay-out can be quite long in case the firm goes bankrupt, because the worker has to turn to the guarantee fund.

²⁰⁷ For a recent analysis of the Italian unemployment compensation system see Madama and Sacchi (2009).

among private sector employees. However, many workers in the private as well as in the public sector still lack of a supplementary pension. The creation of a private pension remains difficult especially for the self-employed and the non-standard workers. The latter can hardly manage to finance themselves a private pension for a number of reasons (Pizzuti and Raitano 2009): they are not entitled to severance payments; they usually have low wages and low contribution rates; and they are often liquidity constrained. For all these individuals the risk is to live on increasingly modest statutory pensions during the old age.

8. Analysis and findings

In Italy, the process of functional transformation of the severance pay into a financial resource for the development of supplementary pensions has consisted in a layering of state interventions during a two-decade period. The picture emerging from our historical reconstruction consists of a sequence of piece-meal interventions resulting from a stop-and-go trajectory of consensual policy-making, in which organised business has played various roles. These have generally been non-cooperative, with the sole exception of the first reform episode (par. 2). In 1993, in fact, the Italian business community actively supported the establishment of the first institutional framework for supplementary pension funds and TFR allocation in negotiated funds. Actually, organised business has shown a certain activism in support of the interventions introduced in the framework of the Maroni pension reform too (par. 5). However, in this episode, business cooperation has not been constant across all phases of the reform process, and it has appeared as a strategy of containment of initially radical governmental projects, rather than a pure case of active support for welfare restructuring. For the rest, employers have been either antagonists or passive consenters with respect to the policy innovations related to the Italian severance pay. The most striking case of business antagonism has been observed in relation to the episode of the Dini pension reform (par. 3), while employers' role has appeared significantly curtailed in occasion of *una tantum* interventions like those enacted in the period 1997-2001 (par. 4) or in 2006 (par. 6).

Overall, this case study has highlighted a limited governance capacity of the Italian organisation of business interests, coherently with what anticipated in our typological framework. According to the latter, we expected that, due to the low level of organisational development of the Italian structures of business interest representation, organisation leaders and professionals would have found it difficult to coordinate the heterogeneous interests of employers and govern business political mobilisation for the achievement of public policy goals. Nevertheless, the observation of occasional instances of business cooperation pushes us to reflect on the extent to which the institutional characteristics of business political organisation have been key determinants of employers' role in the different reform contexts in analysis.

In principle, the Italian business community has always been favourable to the transition to a multi-pillar pension system, and it has never opposed the use of severance payments to finance supplementary pension funds as long as this was regulated through collective bargaining. Yet, at the beginning of all the policy processes examined, Confindustria's representatives (as well as the representatives of the major peak interest associations of SMEs) have voiced their opposition towards any state intervention that entailed the definitive subtraction of severance pay deposits from the balance sheet of Italian firms to finance the take-off of supplementary pensions. Typically, employers' representatives have opposed any reform initiative aimed to either impose by law the automatic transfer of severance pay capital into supplementary pension funds; or consolidate the public budget in state of fiscal emergency through levies on firms' severance pay deposits.

By and large, business opposition towards these interventions can be ascribed to a tension between the general interest of business as a whole and the particularistic interest of some categories of employers. On the one hand, such reform initiatives were in the general interest of the wide world of business, because they tended to favour: the reduction of the fiscal pressure inflating non-wage labour costs through state budget consolidation (par. 2.2); positive signals of rigour in the national public finance management to international markets (par. 1.2); the reduction of litigations before the court over the payment of TFR to employees (par. 2.2); and the end of undue subsidies for business activities that would have shut down according to market laws (par. 1.2). On the other hand, these long-term general interests of business were in contrast with the short-term particularistic interest of some firms (especially the smaller ones) in keeping severance pay resources available to finance

their productive activities in place of market credit. As more, these particularistic interests soon entered in collision with the specific interests of financial capital (i.e. banks and insurance companies) to extend the legislative privileges accorded to negotiated funds by law 124/1993 to open funds and PIP funds (par. 2.2, 5.3).

The conflicting interests of the Italian business community have not been resolved within organisational structures, but translated directly into the policy process. This has been the case in all the principal reform episodes. For example, in the context of the reform enacted under the Amato government, the Confindustria has voiced the contradictory demands of various business segments without making a real synthesis of them (par. 2.1). Another example refers to the split within the Board of the Confindustria that occurred in occasion of the Dini pension reform. That time, while a part of the members of the Board were satisfied with the reform design emerged from tripartite negotiations and the other part pushed the organisation out of the negotiations, the lobbies of financial capital took advantage of the exit of the Confindustria to advance their specific interests. Even during the process leading to the Maroni pension reform, when organised business had finally managed to unite the majority of employers' associations and agree with the unions on a joint reform proposal, insurance companies have separately sought to exert pressure on the government through the representatives of the ANIA.

The low capacity of intra-class cooperation manifested by the Italian organisation of business interests is in line with our expectations concerning the difficulties of scarcely inclusive and cohesive representational structures to aggregate the many interests of business and formulate unitary goals and strategies, so to ensure the success of collective political action. In this sense, Italian organised business has appeared relatively more responsive to the logic of membership than to the logic of influence.

On the one hand, the fragmentation of the system of employers' interests representation in a number of associations with narrow domain, like the ANIA or the associations representing the Italian SMEs, has allowed employers' representatives to tailor their political demands on the specific interests of their respective members. Organisational leaders and professionals have mainly engaged in the promotion of short-sighted redistributive policies for their constituents, whose costs have been eventually discharged on underrepresented business segments. This dynamic can be observed in relation to the lobbying activity of financial capital in the case of the Maroni pension reform. A similar

dynamic seems to have characterised also the bipartite negotiations between the Confindustria and the government for the transfer of accruing severance payments not destined to supplementary pensions into a state treasury fund. In this occasion, by asking the exemption of firms with less than 50 employees from the measure, the Confindustria has eventually preferred to support the enactment of a re-distributive policy in favour of smaller firms (to the detriment of bigger ones) to a policy that could treat all firms in the same way.

On the other hand, due to the lack of coordination among the diverse peak associations representing different business interest domains, Italian business has tended to place the burden of interest reconciliation on the government, which has then tried to design policies in a way that could somewhat satisfy the variety of business demands at stake. As a result, the split within the Italian organisation of business interests has often led to sub-optimal policy outcomes, of which the mentioned discrimination between workers employed in firms with less/more than 50 employees is the most evident example.

Our historical reconstruction has shown that the logic of membership has shaped not only the collective goals promoted by employers' representatives, but also the strategies pursued for the achievement of such goals. As our case study shows, neither the Confindustria nor the other associations of business interests have ever built their strategies on the contextual requirements of political influence. To the contrary, they have manifested a scarce ability to accommodate the immediate short-term interests of business groups with those of political interlocutors, which was expectable in view of the low level of organisational autonomy described in chapter 5. Yet, the prevalence of the logic of membership in the organisational strategies has often contributed to reduce the overall weight of business interests on the final decisions of the executive. This has especially been the case whenever employers' representatives have preferred a strategy of demonstration of strength to a strategy of political exchange in policy concertation venues. For example, the exit of the Confindustria from the May agreement of 1995, and the announced intention of the association to continue antagonistic actions during the parliamentary phase, has simply favoured a greater influence of the unions on the policy output. At the end of the process, only a few isolated demands of organised business have been taken into consideration for the final policy design, mainly resulting from the lobbying of representatives of financial capital. The strategy of the demonstration of strength has turned unsuccessful also when

the Confindustria organised a meeting of its affiliates with the support of other peak employers' associations to protest against the anticipated levying on severance pay deposits that the first Prodi government wanted to include in the 1997 budget law. Not even when organised business enjoyed a favourable balance of power vis-à-vis the unions, due to the ideological convergence between the Confindustria guided by D'Amato and the second Berlusconi government, employers could fully realise their interests and impose their preferred reform design. In fact, during the policy process leading to the proxy law 243/04, while unions' protest convinced Minister Maroni to include some of their demands in the reform proposal, the strategy of D'Amato was rather inconclusive. In fact, the President of the Confindustria kept on asking for a more radical reform, similar to what President Abete did in occasion of the 1995 Dini pension reform. At the end, in neither case the government has accepted such a request, because a more radical reform would have inevitably implied the breakage of delicate social equilibriums.

As far as employers' collective strategies are concerned, it is also worth noticing that threatening the breakdown of concertation (particularly common in the 1990s) has never acted as an effective deterrent of undesired reform initiatives. As also partly discussed in our theoretical chapter, such type of threat is credible when the political system grants stable participation in state socio-economic regulation to a few private interest organisations and hence the participants of tripartite negotiations develop over time a form of loyalty towards policy concertation. Only in such a context, political interlocutors are sensitive to the imperatives of the logic of influence and can come to consider policy concertation as a political end to safeguard, rather than as an occasional instrument of policy-making. However, loyalty to concertation is certainly not diffused among the key actors of Italian industrial relations, who have even rejected state attempts to formalise their participation in social policy-making (par. 4.2).

The only episode in which employers' representatives have managed to turn government's final reform decisions in favour of the interests of the majority of the Italian firms relates to the bipartite negotiations on state collection of severance pay resources for the 2006 budget law. In this occasion, organised business was confronted with a governmental initiative comparable to the one proposed for the 1997 budget law. Similar to the previous experience, employers' representatives had to oppose a withdrawal of money from

severance pay deposits in the firms, which a centre-left pro-unions government was determined to implement for the budgetary exercise. With respect to the 1997 episode, though, organised business adopted a different strategy. Back to the 1990s, despite the Confindustria had managed to unite the business front to demonstrate against government's plans, turning into a sort of *trade union of capitalists*, the centre-left government headed by Romano Prodi eventually decided to enact the envisaged interventions on severance pay flows (par. 4.2). Then, in 2006 the Confindustria did not opt for a similar adversarial strategy. Instead, it sought to achieve a compromise with the executive on the basis of budgetary calculations, possibly because it had drawn a lesson from the political failure of the 1997 experience. Ultimately, the Confindustria chose between lesser evils and traded part of employers' demands in exchange of large exemptions for smaller firms (par. 6). In this way, it managed to shape the policy output in a way that safeguarded the interests of companies with less than 50 employees (i.e. of the majority of both the enterprises in the Italian production system and Confindustria's member firms).

The comparison among the different political contexts of reform leads us to reflect on the distinct effect that the government has on the governance capacity of the organisation of business interests. As we have seen, the Confindustria has never enjoyed full state recognition of its informal monopoly of business interest representation in central policy-making. Exceptions have occurred only during the first Amato government and the Dini government, which in their turn actively sought greater legitimacy for welfare reforms from the social partners. In most reform episodes, the uncertain relationship between the Confindustria and the political executive has weakened, or at least complicated, the participation of organised business in the final decisions on the severance pay, as anticipated in our typological framework. For example, the role of business has been quite narrow with respect to the interventions introduced under the centre-left governments at the end of the 1990s and in 2006, mainly because of a balance of power favourable to organised labour. In these cases, the ideological distance between the Confindustria and the executive has eventually curtailed business influence on the policy process. Curiously, the Confindustria has found it difficult to influence the severance pay reform process even under the centre-right government headed by Berlusconi at the beginning of the 2000s. That time, the reform design actively promoted by the Confindustria together with many

other Italian peak employers' associations and the unions has been rejected because the government took up the requests of the ANIA, with which the Berlusconi cabinet entertained privileged ties.

On the whole, these examples have shown that the government can significantly hinder the capacity of business to carry out cooperative roles. This is due to at least two reasons. First, when the government is frequently partial to specific interests, these can more easily flow through various channels of representation, and their reconciliation becomes in the end a task of the executive, rather than a task of business representation structures. When this happens, it typically overloads the policy process with a number of conflicting demands, which can lead to muddled compromises and sub-optimal policy outcomes, like in the case of the Maroni reform (par. 5.3). The second reason lies in the fact that employers' representatives have no institutional incentive to trade the short-term demands of their constituents with long-term rewards, due to the lack of trust in the vague promises of politically weak and short-lived executives. For example, the opposition of the Confindustria to government's plans for the 2006 budget law was partly due to the suspect that the envisaged transfers from TFR deposits to the INPS fund would have not been temporary as the executive maintained (Interview 8). Indeed, it may have been a valid suspect, since the measure is still in place at the time of writing.

What we have discussed so far seems to confirm that employers' cooperation for the introduction of new social policy paradigms is less likely when business is organised in structures characterised by low levels of organisational complexity and organisational autonomy, like the Italian ones. Nevertheless, our case study contains also two isolated instances of employers' active support for the reform of the severance pay regulation, in which business even formed an alliance with the unions to promote common policy goals. As already mentioned, these instances of cooperation refer to the phase of tripartite negotiation preceding the establishment of negotiated and open funds under the first Amato government, and to the last phases of the long policy process leading to the new regulation of supplementary pension funds in the framework of the Maroni pension reform. In all these phases, both employers' and workers' representatives shared the common goal of defending the primacy of collective bargaining in the regulation of severance pay flows. For this, they jointly asked the Amato government to allow the transfer of severance payments only into negotiated funds (established by means of collective agreements

between employers' and workers' representatives), and to make open funds (run uniquely by financial bodies) hierarchically subordinate to the former through a number of legislative provisions. For the same basic reason, in the context of the Maroni pension reform, employers' representatives supported the unions in the attempt to impede the levelling of all forms of supplementary pension funds, especially as far as severance pay allocation was concerned. To this end, employers' and workers' representatives asked the government to reconfirm the legislative set-up established in the decree 124/1993 and prepared two joint documents with their key points for reform.

How can we make sense of these instances of employers' cooperation, given that the overall governance capacity of their political organisation has appeared rather low?

If we consider the motivations given by employers' representatives in the aforementioned reform phases, we can recognise the influence of a policy legacy on their cooperative behaviour. More specifically, in these occasions the interest in defending the traditional primacy of collective bargaining in the regulation of severance pay flows has certainly represented a factor of convergence between (segments of) business and labour. Yet, once we contextualise these phases within their respective reform episode, we can notice that the existence of a policy legacy alone is not sufficient to explain business cooperation for the final policy output.

In particular, in the reform episode of 1993, employers' representatives have promoted the transfer of severance payments into social partners' negotiated funds together with the unions only when it had become clear that the government could not finance the take-off of supplementary pensions through huge tax reliefs, due to the fiscal crisis. Then, in this case, employers' active support for the final reform design can be explained with the material interest of business in securing the primacy of collective bargaining regulation over severance pay flows, but only in conjunction with the contingent pressure stemming from the crisis of public finance that the Italian economic system was experiencing in those days.

Employers' representatives were initially not inclined to cooperation also in the case of the Maroni pension reform. In fact, during the first phase of the policy process, the President of the Confindustria, Antonio D'Amato, withdrew employers' support for the reform project as soon as it became clear that Minister Maroni would have watered down the

reform bill to meet part of unions' demands. It has been only after the change of the leadership of the Confindustria that organised business has managed to re-establish cooperative relations with the unions. While D'Amato had generally maintained political ties with the Berlusconi executive and cold relations with the unions, President Montezemolo opted for a strategy of political neutrality and dialogue with the unions. Considering the broad reform context, we can explain this change of strategy with a learning process of the representatives of the Confindustria from past political mistakes. In particular, the politicization of the Confindustria under the D'Amato presidency had rendered the organisation passively subordinate to the choices of the executive on the one hand; and it had favoured the escalation of social conflict with the unions on the other. As emerged also from Montezemolo's inaugural speech (par. 5.2), the new Board of the Confindustria had felt the urge to break with the previous organisational management and to pursue cooperative strategies with the unions, in order to regain the lost influence on public decisions. By doing so, Confindustria's part-time leaders and appointed professional managers have eventually avoided employers' passive acceptance of the reform project put forward by the cabinet and the ANIA. In view of this, the cooperation of employers' representatives during the last phases of the Maroni pension reform can be seen as an effort to defend the interests of business in the existing policy legacy mentioned earlier, which however could be enacted only after a change of organisational management.

VIII. Conclusion

Our PhD work shows that the role of business in contemporary social policy reforms varies considerably across space and time. Not everywhere and always business opposes state interventions that extend social rights and favour the redistribution of social risks and income, contrary to what conventional wisdom and classic scholarship on the welfare state hold. Rather, employers occasionally cooperate with national governments for the development of welfare programmes.

More importantly, the work offers a typological framework to interpret such variation in the light of context-related organisational and politico-institutional factors. The framework has proved a valid instrument for our comparative study of employers' positions and influence on the Austrian and Italian severance pay reforms (1990s-2000s). The empirical part, in turn, lends support to our hypothesis that business cooperation with state actors and the unions for social policy development is more likely at high levels of organisational inclusiveness and cohesion, and when employers' representatives enjoy a credible sanction leverage vis-à-vis constituents and a stable participation in state (non-wage) regulation. In fact, from the case analysis it emerges that the modes and outcomes of business collective action in occasion of similar reform puzzles have remarkably diverged between the two countries. In Austria, where the aforementioned institutional conditions are met, organised business has substantially cooperated in the establishment of a new severance pay system, although with varying degrees of activism. Conversely, in Italy, where the same conditions are not given, employers' representatives have generally played non-cooperative roles (i.e. of antagonists or passive consenters) throughout the piecemeal development of a new institutional framework of severance pay and supplementary pension schemes.

Besides, our typological framework has turned out useful to illuminate how the national institutional configuration of business representation has mattered for the observed divergence. In our case studies, indeed, the different institutional underpinnings of business organisation have revealed expression of differing capacities of the national (systems of)

employers' associations to aggregate the variety of business interests related to the reforms and accommodate them with those of institutional interlocutors.

Starting from the Austrian case, the positions of business in all the reform episodes analysed have been formulated in general interest terms, and unitarily voiced by the principal cross-sectoral peak employers' association, the WKÖ. The other large employers' associations have coordinated their political demands with WKÖ's professional managers and part-time leaders, who have minded the relations of interdependence between the different segments of business for the sake of organisational unity. As a result, in Austria the associative action of business has been politically successful. While the WKÖ has not realised the narrow interests of some business segments (e.g. sectors employing a high share of seasonal workers), it has succeeded in satisfying the collective interests of business as a whole and to prevent legislative provisions that could have introduced discriminatory treatments among the various economic categories included in its broad membership.

In Italy, instead, the positions of business towards the various public interventions on severance payments have been split in most cases by tensions between the general interest of business as a whole and the particularistic interest of some sub-groups (e.g. smaller firms, banks and insurance companies). The conflicting interests of the Italian business community have not been eventually resolved within organisational structures, but directly translated into the policy process. Various peak employers' associations, besides the prominent Confindustria, have promoted short-sighted re-distributive policies for their constituents, to the detriment of other business groups. As a consequence, the influence of employers' demands on policy outputs has been often reduced by the discretionary decisions of the government about business interest reconciliation and satisfaction. Moreover, particularism has occasionally triggered negative externalities on some underrepresented business categories, because more influent business groups have managed to discharge the reform costs on them.

These divergent processes and outcomes of business collective action in the two countries bring empirical evidence to our hypothesis that highly inclusive and cohesive organisational forms of interest representation, like the Austrian ones, enhance the capacity of employers' representatives to contain intra-class interest conflicts and deliver unitary,

politically manageable and moderate demands, thus favouring also the internalisation of potential negative externalities.

Further, the Italian organisation of business interests has manifested a modest capacity of intra-class cooperation, in agreement with our expectation that its scarcely inclusive and cohesive structures would have found it difficult to aggregate the many interests of business and come up with unitary social policy goals and strategies. The case analysis has also confirmed that this low capacity of cooperation among different business segments not only hinders the possibility of success of business collective action, but it can even lead to sub-optimal policy outcomes. Among the latter, the probably most evident example has been the regulatory discrimination of workers across employment segments, resulted from the stratification of piecemeal interventions aimed to allow severance pay transfers into supplementary pension funds.

Differences in the institutional set-up of the national organisation of business interests have contributed to shape different employers' role in the Austrian and Italian severance pay reform also from another point of view. Not only have they made for differing organisational capacities of interest unification and coordination, but also for distinct organisational abilities of interest accommodation.

In particular, in Austria organised business has pursued cooperative strategies of interest promotion. Through the representational activities of the WKÖ, Austrian employers have renounced to momentary advantages in order to find suitable solutions to socio-economic problems with the unions and the government. In this sense, the social policy strategies of employers' representatives in the Austrian severance pay reform have been responsive to the imperatives of political exchange, that is, the imperatives of offering members' compliance to negotiated pacts in return for (part of) their interests' satisfaction. At the end, organisational part-time leaders and managers have managed to control the political mobilisation of employers and to strike consensual compromises in bi- and tri- partite arenas, so as to secure the political influence of Austrian organised business not only in relation to single reform episodes, but also with respect to future participation in state socio-economic governance.

Contrary to the Austrian case, in Italy those employers' associations that have gained access to the government have kept close to the prevailing interests of their constituents, for which they have more often enacted adversarial strategies (e.g. demonstration of

strength), rather than strategies of bargained interest accommodation. In most cases, organisational leaders and professional managers have been relatively more sensitive to the imperative of lobbying in favour of members' demands, than to the imperatives of political exchange. This scarce organisational ability to build collective strategies on the contextual requirements of political influence has often contributed to reduce the overall weight of Italian business interests on the final decisions of the executive. Indeed, the latter has not always accepted to share its decisional authority over the design of severance pay legislative innovations with the many employers' associations making political pressure for their specific demands.

These further observations of the different modes of business collective action in the two countries provide some empirical evidence to our hypothesis that business organisations like the Austrian one, endowed with stable participation in state (non-wage) regulation and sanction leverage vis-à-vis members, are more likely able to govern their members' mobilisation in support of social policy goals. Instead, when the national organisation of business interests lacks of these properties, and thus members are the only source of organisational support, like in Italy, it seems more difficult for organisational leaders to strike compromises independently from the short-term (at times short-sighted) interests of their constituents, ignoring the risk of their defection from the organisation. Concisely, members-dominated (systems of) employers' associations can hardly become a vehicle to build reform coalitions and cooperate with governments seeking greater legitimacy for their social policy interventions, whereas the opposite seems to hold for those business organisations that are more developed in terms of organisational autonomy from the membership.

With respect to the latter, our research has also found that the threat of state unilateral intervention in welfare policy can work as a catalyst of business activism for the achievement of consensual decisions. In fact, the analysis of the Austrian case has shown that, in the early 2000s, government's progressive delegitimisation of the institutional function of social partnership and persuasion to carry out welfare reforms alone have brought employers' and workers' representatives closer together for the rapid achievement of a compromise. This crescendo of business cooperation in the final stages of the Austrian severance pay reform has provided an empirical example of the organisational mechanism

of opportunism, theoretically associated with organisations that draw from cooperation at state level important resources to tie and govern their members (e.g. special information, authority, etc.). As we have seen, the mechanism implies that these organisations, by developing over time a vested interest in stable (although informal) participation in state power and policy formation, may trade part of the short-term social policy interests of the membership with the long-term objective of securing the political viability of associative action. In addition, the Italian case study has suggested that such organisational mechanism does not work in institutional contexts where actors view policy concertation more as an occasional instrument of policy-making rather than a political end to safeguard. Indeed, in the Italian context, the strategy of threatening the breakdown of concertation, observed especially in the policy processes of the 1990s, has worked neither as a catalyst of activism in support of negotiated solutions, nor as an effective deterrent of undesired reform initiatives. This reinforces the idea that organisations are prone to opportunism, and thus responsive to threats to their political influence, only when the political system grants stable participation in state socio-economic regulation to a few of them, which eventually develop loyalty towards policy concertation. Instead, member-dominated organisations, like the Italian one, tend to remain rather indifferent to a similar threat. As we have seen, in Italy employers' representatives have had no institutional incentives to trust the vague promises of politically weak and short-lived executives and trade the short-term demands of their constituents for some intangible long-term reward.

Overall, our comparative study has allowed to visualise how different types of organisational design and processes shape employers' role in social policy development through their interaction with the variety of business interests in a given welfare reform. By doing so, the study has especially provided empirical evidence to the hypothesised conditions and mechanisms that can favour employers' cooperative political behaviour.

Yet, some of the observed instances of business organisational behaviour have departed from the pathways we had theorised. The analysis of these deviations from expected courses of business collective action has contributed to enrich our theoretical framework, mainly by means of theory-driven induction.

In this respect, a relevant finding concerns the role of government coalitions in upholding or dampening those organisational mechanisms that can motivate employers to accommodate their social policy demands with those of state officials and organised

labour. By biasing the contingent conditions of access to the policy process and of political influence on policy outputs, the government can restrain the governance capacities of business organisations even in institutional contexts that should favour employers' cooperation.

In fact, the analysis of the first reform episode of the Austrian case study has shown that the absence of specific political pressure and the granted access to the policy process, provided by political ties between the major interest associations and the two parties on government, have reduced the incentives of both employers' and workers' representatives to bargain for negotiated solutions. As a result, inter-class interest conflicts over the design of the new severance pay have not been reconciled during bi- or tri-partite negotiations, but channelled into the Austrian Parliament by the two ruling parties, which put forward two alternative models, reflecting the opposite demands of business and labour.

Also the case of the Italian reform approved in 2005 has allowed observing the dampening effect of clientelistic dynamics on the organisational mechanisms of interest accommodation. In this occasion, despite the Italian Confindustria had managed to agree on the key points of reform with other main peak employers' associations and the unions, the government finally rejected part of them to meet the requests of the association of insurance companies, with which the Cabinet entertained close ties.

On the basis of these additional results of the case analysis, we have refined our hypothesis concerning the governance capacities of business interest organisations. In particular, we specify that, even in case of highly developed institutional structures of business interest organisation, like the Austrian ones, the type of government on power maintains a certain influence on the mode of employers' collective action in social policy. In particular, the presence of political ties between the major interest associations and the ruling parties seems to work as a suppressor of the organisational capacity of interest accommodation, because it triggers clientelistic dynamics of policy formation. These, in turn, by transferring intra- and/or inter-class conflicts into the cabinet or the national parliament, may overload the policy process and produce sub-optimal policy outcomes like reform delays and stalemates, or patchwork welfare policies.

As a side effect of our case analysis, we have also found empirical evidence that calls into question some propositions, diffuse in the comparative political economy literature,

concerning the relations between business, social policy and right-wing governments. Although the literature generally assumes that the social policy preferences of the right coincide with those of business, and that the latter cooperates with the unions only when centre-left parties at government alter the balance of class power in favour of labour, our Austrian case study tells us a different story. In fact, employers' representatives have not made use of the higher power resources offered by the political context of the early 2000s to circumvent or delegitimise unions' informal veto and push forward business interests in the severance pay reform. Despite business influence on the decisions of the executive could have been considerably favoured by the ideological convergence with the major party at government and the anti-unions approach of the other coalition party, the WKÖ has sought a compromise on the reform design with the unions. As more, the WKÖ has undertaken joint political action with the unions against the ministerial reform draft, so as to ensure that the key points of the reform proposal emerged from bipartite negotiations would have been eventually turned into legislation. While we have already explained above the reasons of employers' activism in this reform context, here we just want to draw the attention on the scarce accuracy of assumptions that establish automatic relations between business politics of social policy and right-wing governments.

Albeit our findings serve to formulate contingent generalisations, rather than general claims about causal relations and mechanisms, they nevertheless shed new light on the relevance of the organisation of business interests for employers' social policy positions and influence. Moving beyond institutional analyses based on cross-national variation in economic incentives and business competitive strategies, our comparative study shows how national (systems of) employers' associations shape business social policy goals and political mobilisation by mediating between the immediate economic interests of the membership and the imperatives of successful associative political action. In this sense, the study substantiates and refines recent findings that the institutional underpinnings of business organisation are crucial determinants of employers' active support for social policy development (Swank and Martin 2001; Martin and Swank 2004). Through the comparison between the role of business in the Austrian and Italian severance pay reform, we have found indeed some significant connections between institutional patterns of employers' organisation and business interpretations of social policy.

More than this, moving back and forth from theory to evidence, we have identified the institutional conditions and organisational mechanisms that have led to different business roles in our case studies. In this way, our work has contributed to build initial blocks for a more comprehensive typological theory that links institutional set-ups, the governance capacities of national organisations of business interests, and employers' role for welfare state development. Further research is warranted to provide new blocks for the expansion of our initial framework through cross-national case studies. Future students of comparative political economy that wish to engage in such research should select their cases so as to obtain different values on the two sets of institutional conditions we have characterised in this work. It will be especially interesting to see what sort of interactions exists between the two sets, and if they are actually self-reinforcing as we have supposed. More generally, it will be important for the next studies on business and the welfare state to develop interpretative models that balance the emphasis on microfoundations (i.e. on the way in which employers perceive their interests in social policy at the individual level) with macrofoundations that elucidate how organisational and political institutions contribute to the definition of actors' collective goals and behaviour. In this regard, typological theorising has revealed a good approach for including hypotheses on mechanisms leading from structures to agents and from agents to structures in the same theoretical framework. Moreover, Schmitter and Streeck's model on the dual logic of organised collective action has proved very useful to show how business role in the reforms in analysis has definitely resulted from the interplay between employers' economic interests and the intermediation activities of their organisation with the political context. In the end, the different roles played by business in the two national reform environments have turned to depend on the different ways in which the Austrian and Italian organisations have framed and moulded employers' interpretations of their social policy interests, on the basis of their specific organisational structures and relations with institutional interlocutors.

To conclude, our work suggests that the greater importance of business interests for contemporary welfare state politics may not necessarily have an inhibiting effect on social policy development. As organisational dynamics increase the number of possible employers' interpretations of welfare policy, the national systems of business interest representation may offer governments a vehicle through which to construct business

support for state policy initiatives and secure later compliance to negotiated agreements. This is more likely when governments are ready to lend their assistance for the development of institutional arrangements that enhance the governance capacities of business interest organisations and thus promote cooperative solutions to both employers' collective action and social policy problems. Ultimately, representational inclusiveness, organisational cohesion, sanction leverage and stable participation in state regulation (in non-wage policy areas) are the institutional arrangements that seem to matter most.

List of Interviews

N.	Position (in relation to the events in analysis)	Interview Type	Date of the Interview	Place of the Interview
1	Scientific Director L&R Sozialforschung	Face to face	June 2010	Salzburg
2	Former Minister of Economics and Labour (ÖVP)	Face to Face	March 2011	Vienna
3	AK Representative, Department of Social Policy	Face to Face	April 2011	Vienna
4	WKÖ Representative, Department of Social Policy and Health	Face to Face	May 2011	Vienna
5	IV Representative, Department of Labour and Social Affairs	E-mail questionnaire	May 2011	-
6	Former Minister of Labour (centre-left wing)	Face to Face	July 2011	Rome
7	Representative of Confindustria, Department of Taxation, Finance and Welfare	Face to Face	July 2011	Rome
8	Representative of Confindustria, Department of Taxation, Finance and Welfare	Face to Face	July 2011	Rome

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